STATE OF MONTANA

# MONTANA STATE UNIVERSITY
# MONTANA AGRICULTURAL EXPERIMENT STATION
# MONTANA COOPERATIVE EXTENSION SERVICE

## REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1974

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA
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MONTANA STATE UNIVERSITY
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Fiscal Year Ended June 30, 1974

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## APPOINTIVE AND ADMINISTRATIVE OFFICIALS

## BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*

Dolores Colburg, Superintendent of Public Instruction*

Lawrence K. Pettit, Ph.D., Commissioner of Higher Education, Secretary

| | | |
|---|---|---|
| Sid Thomas, Student Representative | Bozeman | 1977 |
| T. T. Heberly | Havre | 1977 |
| Mary Pace, Vice Chairman | Bozeman | 1978 |
| Ted James, Chairman | Great Falls | 1979 |
| Jeffrey Morrison | Helena | 1980 |
| John Peterson | Butte | 1982 |
| Lewy Evans, Jr. | Billings | 1983 |

*ex officio members

## MONTANA STATE UNIVERSITY

## LOCAL EXECUTIVE BOARD

| | |
|---|---|
| William McGinley | April, 1976 |
| M. O. Young, M.D. | April, 1977 |
| Mrs. Donald Nash | April, 1978 |

## ADMINISTRATION

| | |
|---|---|
| Carl W. McIntosh, Ph.D. | President |
| Johan A. Asleson, Ph.D. | Director, Agricultural Experiment Station |
| Carl Hoffman, Ph.D. | Director, Cooperative Extension Service |
| Thomas Nopper | Business Manager |

## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Commissioner of Higher Education and Montana State University are included in the back of this report.

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| Develop procedures to properly differentiate between encumbrances and accounts payable in the financial statements. | 79 |
| Agency Reply: Concur. See page 169. | |
| Correct internal control weaknesses in accounts receivable. | 81 |
| Agency Reply: Concur. See page 169. | |
| Consolidate the Cooperative Extension Service and the Agricultural Experiment Station under the university's automatic accounts receivable process. | 81 |
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| Use journal vouchers to account for intra-university transactions. | 81 |
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| Improve its inventory costing procedures. | 83 |
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| Agency Reply: Concur. See page 170. | |
| Establish sound criteria for recharges and periodically review the criteria. | 84 |
| Agency Reply: Concur. See page 170. | |
| Deposit all nursing school money in the state treasury or seek authority for contingent revolving funds. | 86 |
| Agency Reply: Concur. See page 170. | |
| Reconcile chemistry store cash on hand to sales and deposit all receipts intact. | 86 |
| Agency Reply: Concur. See page 171. | |
| Correct the cash receipt and disbursement internal control weaknesses discussed above. | 88 |
| Agency Reply: Concur. See page 171. | |

# PREFACE

This report discusses the financial activities and operations of three state agencies: Montana State University, the Montana Agricultural Experiment Station, and the Montana Cooperative Extension Service. Each agency is somewhat autonomous, in that its functions, operations, and sources of funding differ; however, both the extension service and the experiment station are closely allied with the university, and the university president is the chief executive officer for all three entities.

Each entity has separate financial statements which are included in the appendix of this report. Our opinions on the financial statements of each unit are also presented separately at the beginning of this report. Because we audited three agencies, three separate opinions are presented.

The financial accounting and reporting responsibilities for the three entities are performed by the university business office. Consequently, many of our recommendations which relate to all three entities' transactions are directed to the university. Certain activities unique to the Montana Agricultural Experiment Station are discussed separately on page 63.

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheets of Montana State University as of June 30, 1974, and the related statements of operation listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards and with the audit requirements set forth in the applicable audit guides issued by the Department of Health, Education and Welfare for Audits of National Direct Student Loan Programs, Economic Opportunity Grants, and College Work Study Programs, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs. We did not test the assets, liabilities or operations of residence halls, family housing, student union food service or the fieldhouse; bonds payable as reported in investment in plant; or the assets, liabilities, additions to and deductions from the Retirement of Indebtedness Fund. These programs and funds were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these programs and funds, is based solely upon the report of the other auditors.

At June 30, 1974, the university balance sheet for loan funds lists institutional fund assets of $139,641, which are the property of the

Endowment and Research Foundation of Montana State University. On July 1, 1975, these assets were removed from the university's accounting records and transferred to the foundation.

During the fiscal year 1973-74, the university had a service agreement with a private contractor in Chicago to maintain accounts receivable records for the National Direct Student Loan Program (NDSL). The service included the processing of loan payments, which were remitted directly to the contractor, maintaining loan balances and administering collection procedures for delinquent accounts. Because an independent review of the internal controls at the private contractor's service center has not been made, there is no assurance that the accounting for the National Direct Student Loan Program is complete and accurate. Because transactions and student loans receivable of the NDSL program are material in relation to the Balance Sheet for Loan Funds and Statement of Changes in Fund Balances for Loan Funds, we do not express an opinion on these statements.

The condition of the university's accounting records relating to investment in plant, including land, buildings, and equipment was such that we were unable to carry out certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Subsidiary records for land and buildings are not maintained. Historical cost records for equipment are not available. Accordingly, we do not express an opinion as to Investment in Plant asset balances or the Statement of Changes in Fund Balance for Investment in Plant.

The university transferred all grant revenue for research, training and education to the Endowment and Research Foundation of Montana State University. The receipt of grants and subsequent expenditures from grants are not reported in the university's statement of Current Funds

Revenue. As described on page 17 of this report, grant and other revenue omitted from the statement of Current Funds Revenue for the fiscal year 1973-74 exceeded $1,600,000; however, the exact amount of unreported revenue cannot practicably be determined by us.

Encumbrances are incorrectly reported as liabilities on the university's financial statements and certain other liabilities are not recorded at June 30, 1974. Liabilities are thereby understated by $66,141 in unrestricted current funds, education and general; understated by $56,667 in current funds, unrestricted, auxiliary enterprises; and understated by $9,563 in current funds, restricted, education and general. Balances at the beginning of the year were also misstated. The improper reporting of these liabilities distorts both the balance sheet and the statement of current funds expenditures, as described on page 76 of this report.

As described on page 59 of this report, cash and investments of $346,065 were improperly presented on the Agency Fund Balance Sheet at June 30, 1974. These assets should have been presented in other fund groups. In addition, transactions made during fiscal year 1974-75 were improperly recorded during fiscal year 1973-74, understating agency fund cash by approximately $93,000. Accounting errors resulted in the overstatements of accounts receivable by approximately $86,000.

In our opinion, based upon our examination and the report of other auditors, which report relates to compliance with revenue bond indentures, due to the material nature of the matters discussed in the preceding paragraphs, the aforementioned financial statements do not fairly present the financial position of Montana State University at June 30,

1974, the changes in fund balances or the current funds revenues and expenditures for the year then ended.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

October 31, 1975

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheets of the Montana Agricultural Experiment Station as of June 30, 1974, and the related statements of operations listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

The condition of the Montana Agricultural Experiment Station accounting records relating to investment in plant, including land, equipment and buildings, was such that we were unable to carry out certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Subsidiary records for land and buildings are not maintained. Historical cost records for equipment are not available. Accordingly, we do not express an opinion as to Investment in Plant asset balances or the Statement of Changes in Investment in Plant.

The Experiment Station transferred all grant revenue for research, training and education to the Endowment and Research Foundation of Montana State University. The receipt of the grants and subsequent expenditures from grants are not reported in the station's statement

of Current Funds Revenue. As described on page 17 of this report, grant and other revenue omitted from the statement of Current Funds Revenue for the fiscal year 1973-74 exceeded $299,000; however, the exact amount of unreported revenue cannot practicably be determined by us.

Encumbrances are incorrectly reported as liabilities on the station's financial statements and certain other liabilities are not recorded at June 30, 1974. Liabilities are thereby overstated by $129,775 in current unrestricted funds and $79,535 in current restricted funds. Balances at the beginning of the year were also misstated. The improper reporting of these liabilities distorts both the balance sheet and the statement of current funds expenditures, as described on page 76 of this report.

The Experiment Station did not properly disclose lease commitments totaling over $80,000 as discussed on page 63 of this report.

In our opinion, except for the matters described in the preceding paragraphs, the aforementioned financial statements present fairly the financial position of the Montana Agricultural Experiment Station at June 30, 1974, and the changes in fund balances and the current funds revenues and expenditures, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We did not examine the financial statements for the year ended June 30, 1973, and accordingly do not express an opinion on them.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

October 31, 1975

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheets of the Montana Cooperative Extension Service as of June 30, 1974, and the related statements of operation listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

The condition of the extension service accounting records relating to investment in plant, including equipment and buildings, was such that we were unable to carry out certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Subsidiary records for buildings are not maintained. Historical cost records for equipment are not available. Accordingly, we do not express an opinion as to Investment in Plant asset balances or the Statement of Changes in Fund Balance for Investment in Plant.

The extension service did not record certain liabilities at June 30, 1974. Liabilities are understated by $23,528 in current unrestricted funds and $5,915 in current restricted funds at June 30, 1974. Balances at the beginning of the year were also misstated. The improper recording

of these liabilities distorts both the balance sheet and the statement of current funds expenditures, as described on page 76 of this report.

Sales and service revenue for the multilith department is understated by $24,770. This revenue was placed in a university agency account. Failure to accrue accounts receivable created an additional understatement of $6,033, as discussed on page 72 of this report.

In our opinion, except for the matters described in the preceding paragraphs, the aforementioned financial statements present fairly the financial position of the Montana Cooperative Extension Service at June 30, 1974, and the changes in fund balances for current funds revenues and expenditures, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We did not examine the financial statements for the year ended June 30, 1973, and accordingly do not express an opinion on them.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

October 31, 1975

## COMMENTS

### GENERAL

Montana State University in Bozeman was chartered on February 16, 1893, as the Agricultural College of the State of Montana at Bozeman. The school was later named Montana State College, and on July 1, 1965, it became Montana State University. The university is a land-grant institution as authorized by the Morrell Act of 1862 and receives part of its support from land-grant income as well as state appropriations, student fees and federal and private grants.

Chartered with the objectives of providing instruction and education in agricultural and other fields, the university now offers bachelor's degrees in 40 different areas including approximately 90 possible majors. In addition, the university offers master's degrees in 33 areas and doctorates in 19 fields of study. The university has an enrollment of over 8,000 students and employs more than 450 full-time instructional staff members. The university consists of five colleges: agricultural, engineering, education, letters and sciences, and arts and architecture. These colleges, under the direction of deans, are primarily responsible for conducting the educational programs. Each college is further segregated into departments under the management and control of department heads.

Closely allied with the university is the Agricultural Experiment Station. The station was established in 1893 by the Montana Legislature under authorization provided by the Hatch Act of 1887. The station receives federal funds under the Hatch Act as well as state appropriations, federal and private grants, and funds from the sale of surplus agricultural products. Research is conducted at 13 campus departments

and seven research centers. A map indicating the location of these centers is included in the appendix as Exhibit I. The experiment station, under the control of a director, conducts much of its research in cooperation with the Agricultural Research Service of the U. S. Department of Agriculture. Information derived from research is made available to Montana residents through the subject matter specialists and agents of the Cooperative Extension Service.

The Cooperative Extension Service is also an integral part of Montana State University. The service was created in 1915 under the Smith Lever Act and state legislation. The extension service receives federal support under several federal programs as well as state and county appropriations and federal and private grants. As well as being part of the university, the service is a part of the U. S. Department of Agriculture. The aim of the Cooperative Extension Service is to combine the efforts of professional and lay people for the improvement of agriculture and the level of living of Montana citizens. In carrying out these goals, it works through 4-H, Extension Homemakers clubs and other farm and community organizations.

The president of Montana State University is the chief executive officer for all three divisions: university, extension and experiment station. The president has the immediate direction, management and control of the institution under the general supervision and direction of the Board of Regents.

Financial accounting for the three divisions is performed largely by the university business office. Individual departments and divisions originate accounting data; however, payment of claims, cash receipts, property control, and financial statement preparation for all units is handled by the business office.

Certain sections of this report contain material discussed in prior audit reports. The sections concerning constitutional status, university accounting and the Statewide Budgeting and Accounting System, and university-foundation transactions provide information which is applicable to all or several of the university units. Significant changes are taking place at individual units and in the university system with regard to these topics. This report discusses the progress of these changes and their effect on the university system.

## CONSTITUTIONAL STATUS

During our review of the various units of the university system, the question of university autonomy has arisen. Basically, the question of autonomy pertains to the extent to which the units of the university system are subject to the actions of the legislative assembly. Issues related to autonomy include whether the university is required to comply with state laws regarding the deposit of funds in the state treasury, employee benefits, and investment of state money. An additional key issue relating to university autonomy has been the legality of legislative line-item appropriations and conditions attached to the appropriations.

These issues have been the subject of controversy and discussion since Montana's new Constitution became effective on July 1, 1973. Prior to that date, the former Constitution and court decisions interpreting it left no question about the legislature's power to exercise complete control over the university system. Montana's new Constitution provides in Article X, Section 9(2)(a), that:

> "The government and control of the Montana university system is vested in a board of regents of higher education which shall have

full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system and shall supervise and coordinate other public educational institutions assigned by law."

In contrast to the foregoing constitutional provision, Article VIII, section 12, of the new Constitution, provides that:

"The legislature shall by law insure strict accountability of all revenue received and money spent by the state. . . ."

The Board of Regents has certain authority and responsibility over the university system and the legislature has certain authority and responsibility over the revenue and expenditures of state agencies. At issue has been whether the legislature, by statutory enactment, may regulate deposit of university revenues, expenditure of university funds and other matters relating to the operation of the university system.

The Attorney General addressed several of these issues in an opinion dated January 31, 1975. He held that statutes relating to (1) the investment of state moneys, (2) employee benefits and vacation leave (except for school teachers), (3) deposit of moneys, and (4) the line-item appropriations and conditions contained in House Bill 55, Montana Session Laws of 1973, were applicable to the Board of Regents and the separate units of the university system. Our audit standards for compliance were based upon that Attorney General's opinion and applicable fiscal regulations.

Subsequent to the issuance of the Attorney General's opinion, the 44th Legislative Assembly, in 1975, enacted House Bill 271 and Senate Bill 401. Senate Bill 401 provided that no state agency should expend in excess of appropriation except under authority of a budget amendment approved by the Legislative Finance Committee. House Bill 271 appropriated money to the university system for the biennium. It also

contained general and specific provisions concerning the manner in which the university could expend the appropriations, including a provision which limited salary increases for presidents and for the Commissioner of Higher Education to 5 percent each year of the biennium.

The bill provided for budget amendment approval by the Board of Regents whenever additional funds not considered by the legislature became available from sources outside the general fund. Approval by the Board of Regents would constitute an "approved budget amendment," unless otherwise provided by law. (Emphasis added) The question of whether the phrase "unless otherwise provided by law" in House Bill 271 referred to the provisions of Senate Bill 401 requiring Legislative Finance Committee approval became a point of controversy.

In addition, House Bill 271 contained a certification provision, requiring the Board of Regents to certify compliance with specific conditions in the bill. The budget director declared the appropriation to the university system void in the absence of a letter certifying compliance with the provisions of the bill. The Board of Regents declined to certify, and on June 24, 1975, the Board of Regents filed an original proceeding in the Supreme Court of the State of Montana, in which two basic issues were presented:

> "I. Whether section 1(3) of House Bill 271, in light of the provisions of Senate Bill 401 is an unconstitutional infringement on the powers and duties of the Board of Regents;
>
> "II. Whether (a) the certification requirement contained in the origination clause of section 12 of House Bill 271 is unconstitutional as an improper legislative infringement on the management authority of the Board of Regents, and (b) whether section 12(6) of House Bill 271 is unconstitutional as a direct invasion of the management prerogatives granted to the Board of Regents by Article X, Section 9, of the Montana Constitution."

The Supreme Court decided this case on December 19, 1975. The provision of House Bill 271 regarding approval of budget amendments by the Legislative Finance Committee was determined an unconstitutional delegation of legislative power.

The certification requirement contained in House Bill 271 was upheld, although one specific requirement regarding salary increases was held unconstitutional and legislative power to appropriate was limited to public money. The Supreme Court held that the Board of Regents must certify to the other conditions within a reasonable time to receive additional funding. The legislature may continue to require certification in appropriation bills, but the provisions of certification may not infringe upon the constitutional duties of the Board of Regents.

While this issue was being resolved by the Supreme Court, the university made efforts toward complying with the conditions contained in House Bill 271 and Title 79, R.C.M. 1947, regarding the deposit of university system funds into the state treasury. The university system initiated compliance with a June 20 directive from the Office of Budget and Program Planning which stated, "All locally held monies must be deposited in the State Treasury by September 30, 1975. . . ." The Office of the Commissioner of Higher Education, in cooperation with the Department of Administration, established new accounts in SBAS for the deposit of funds. The two smallest units of the system required additional time to comply. However, we were advised that by January 1, 1976, all university funds were in the state treasury except contingent revolving funds, funds held in trustee accounts established under bond indentures, and accounts authorized by the Department of Administration.

UNIVERSITY ACCOUNTING AND THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The Department of Administration developed the Statewide Budgeting and Accounting System (SBAS) in 1971. SBAS is the required accounting system for all state agencies except the university system. The Department of Administration exempted the university system from exclusive use of SBAS because it could not provide financial information and reports in accordance with the fund accounting system required by the university units. Prior to deposit of all university money in the state treasury, some financial transactions were recorded in two accounting systems, the universities' and SBAS. Our prior audit reports on the university system discussed the concept of "state" and "local" money. While all of the money was actually state money, the term "local" referred to those funds held in local bank accounts which did not pass through the state treasury. Transactions involving "local" money were not recorded in SBAS.

As the state treasury function now operates, the deposit of all university money into the state treasury has automatically placed the university system on SBAS. However, because SBAS does not provide information in the method required by the universities, each unit has retained its own accounting system. Currently, the duplication is required since the accounting system at each unit provides essentially full reporting in the method the universities desire while SBAS does not.

In addition to the duplication of accounting systems, our prior audit reports noted that accounting policies and procedures differ significantly at each unit. The differences affect the usefulness and comparability of financial reports issued by each unit. Our reports

suggested that the university implement uniform accounting policies and procedures as a first step to obtaining reliable and comparable financial information.

The university system has taken initial steps toward implementing uniform accounting policies and procedures and eliminating the current duplication of accounting systems. Effective July 1, 1975, the Office of the Commissioner of Higher Education established the Accounting System Project. The Board of Regents' resolution which authorized the project noted that the accounting study was undertaken "to provide the Board, the Commissioner's Office, the Legislature, the Executive Branch and the people of the State of Montana with reliable, comparative and consistent financial information presented in accordance with nationally recognized accounting principles for colleges and universities. . ." Consistent with this objective, the Accounting System Project staff issued on November 24, 1975, a report entitled, "Identification and Discussion of Basic Accounting Principles." The report follows guidelines established by the American Institute of Certified Public Accountants (*Audits of Colleges and Universities*), the American Council on Education (ACE), (*College and University Business Administration*), and the report of the Joint Accounting Group (JAG). Where alternative accounting treatments are acceptable, there are plans to insure uniformity throughout the system.

The primary goal of the accounting project is to assure uniform and comparable financial reporting. Updating and revising internal accounting systems to eliminate the current duplication is the second objective of the study group. Possible changes suggested by the study group are the following alternatives.

"1. The full utilization of SBAS, with modifications as the only accounting system at each unit."

"2. Each unit accepting the responsibility for its own internal accounting system and proceeding accordingly on an individual basis. . ."

"3. The implementation of a new centralized accounting system common to all units. . ."

The university study group should give foremost consideration to the first alternative--the full utilization of SBAS. Although SBAS may have the capability, it is not currently designed to provide information of the type or in the format recommended for colleges and universities and desired by the state university system. This does not mean, however, that SBAS could not be modified or a subsystem designed to accommodate the university and college needs.

REVENUE

Montana State University and the Montana Agricultural Experiment Station received significant amounts of revenue during fiscal year 1973-74 which were not reported in the financial statements as revenue to either unit. Most of the understatement stems from the university's relationship with the Endowment and Research Foundation. The revenue involved was reported in agency funds as belonging to the foundation. The revenue should have been reported as part of current funds.

Below is a summary of revenue incorrectly reported in the financial statements of the university and the experiment station.

| | Montana State University | Agricultural Experiment Station |
|---|---|---|
| Grants for research, training and education | $1,068,393(1) | $299,069(1) |
| Interest earnings | 105,863 | 5,222 |
| Indirect cost reimbursements | 450,894 | |
| Library fines and milk sales | 5,724 | 664 |
| Unrecorded sales | | 7,177 |
| | $1,630,874 | $312,132 |

(1) These are minimum amounts confirmed during our review. See the following text.

The failure to report these items in the statement of current funds revenue represents a material error in the financial statements of both the university and the station. The first three items, grants, interest earnings and indirect costs, concern the university's relationship with the Endowment and Research Foundation. A further discussion of these items is presented in this report beginning on page 23.

Grants for Research, Training and Education

During fiscal year 1973-74, more than $1,000,000 in grants was given to the university. More than $297,000 in grants was given to the experiment station. These are minimum figures confirmed during our review of certain transactions. As the table on page 26 indicates, the Endowment and Research Foundation had expenditures of more than $4,000,000 which would approximate the maximum amount of incorrectly reported revenue.

The training, research and educational activities performed in accordance with the grant agreements utilized university and station facilities and personnel. One grant, for example, provided $152,279 during a two-year period to support the School of Nursing. The school used 96 percent of these funds for salaries and benefits. The only significant requirement for receiving the grant was that state expenditures for support of the nursing school not decrease upon receipt of the grant. The revenue and expenditures associated with this grant do not appear as university revenue on the university's financial statements. Instead, all such grants were transferred to the Endowment and Research Foundation. These grants should have been reported as current revenue in amounts equal to direct costs incurred and indirect cost reimbursements earned.

Beginning July 1, 1975, the university established procedures to ensure that grant and contract revenue is properly reported in future financial statements. The changing relationship between the university and the foundation is fully discussed on page 28 of this report.

Interest Earnings

Prior to January 1, 1974, the university transferred all interest earnings from its surplus investments to the Endowment and Research Foundation. Surplus investments consisted of cash that was not specifically identified as belonging to any fund group or entity. This "pooled" money came from the student loan fund, fees and collections not deposited in the state treasury, auxiliary enterprise revenues, and other locally held money. During fiscal year 1973-74, interest transferred to the foundation and not reported in the university's financial statements totals $83,600.

The university also failed to accrue interest earnings at year-end. This resulted in an understatement of interest earnings for the year of $27,485, of which $5,222 is attributable to the Montana Agricultural Experiment Station.

Prior to January 1, 1974, university investments were mostly in certificates of deposit in local banks. After that date, the university utilized the Board of Investments Short-Term Investment Pool (STIP). University officials noted greater cash flexibility and a higher return utilizing STIP. Internal control problems concerning custody of certificates and transfer of cash were also alleviated. With the deposit of university funds in the state treasury, all university investments, except those held by trustees for bond requirements, will utilize STIP.

After January 1, 1974, the university recorded interest earnings in its records and discontinued transferring this revenue to the foundation.

Indirect Cost Reimbursements

Indirect cost reimbursements are designed to reimburse the university for overhead charges incurred while administering grants. Most grants include a provision for salaries, wages, benefits, and materials and supplies needed to comply with the grant. Indirect cost reimbursements provide money for such expenses as bookkeeping, use of fixed assets, and janitorial services. During fiscal year 1973-74, $534,494 for reimbursement of indirect costs was received by the university but was recorded in the foundation financial records. The university's financial statements do report indirect cost reimbursements of $223,669, however, this amount is actually composed of current and prior year interest earnings, institutional allowances and administrative cost reimbursements from grants and from the community service program.

Foundation records record the receipt of the full amount of indirect cost recoveries of $534,494. The amount the university reports in their statement of current funds revenue as indirect cost reimbursements actually includes current year interest earnings of $83,600. The net effect on the university's statement of current funds revenue is an understatement of indirect costs of $450,894.

Since July 1, 1975, all transactions involving grants and contracts have been recorded in the university's financial records. University financial statements in future years will report this revenue.

Library Fines and Milk Sales

During the normal course of business, certain university transactions result in a reduction of expenditures. For example, an overpayment to a supplier or unacceptable merchandise returned by the university results in a refund from suppliers. These transactions properly increase

the university cash balance and reduce expenditures. Our review noted that the university included some transactions as refunds which should have been classified as revenue. For example, university library fines of $5,724 and milk sales of $664 by the Agriculture Experiment Station were classified as reductions of expenditure rather than revenue. During the year, numerous other small transactions, such as sales of transcripts, space rentals, and sales and service activities, were improperly recorded as refunds of expenditures rather than revenue.

The university established revolving funds and required supporting references on refunds in an attempt to correct this problem; however, some revenue is still incorrectly classified as refunds. Business office personnel do not review supporting references on refund documents. Some of the references do not relate to the cash receipt accompanying the refund document. To ensure that revenue and expenditures are properly recorded, the university should review refunds, at least on a test basis, to determine their proper disposition.

*RECOMMENDATION*

*We recommend that the university establish procedures to properly identify and record revenue.*

Unrecorded Sales

As a by-product of their research, the Agricultural Experiment Station earned revenue of almost one and one-half million dollars from sales of livestock and agricultural products. No procedures have been established to ensure that this revenue is recorded in the same year it is earned. Some revenue earned during the year is not recorded until the actual receipt of cash. Failure to accrue sales earned at June 30,

1973 and June 30, 1974 resulted in a net understatement of revenue of $7,177.

RECOMMENDATION

*We recommend that the university establish procedures to record revenue in the period earned.*

Other Errors

Failure to establish cut-off procedures for sales and one case of double reporting resulted in errors which partially offset unreported revenue. Experiment station revenue was overstated by $29,430 because of sales made prior to the beginning of fiscal year 1973-74 but not recorded until July, 1973.

The relationship between the university and the foundation resulted in one case of double reporting which overstated university revenue by $23,699. The university financial statements report federal grant and contract revenue of $166,879. Included in this amount is an administrative cost reimbursement. This reimbursement was transferred to the foundation and later transferred back to the university as part of the reported indirect cost reimbursement. The effect of these transfers is to report revenue of $23,699 twice in the same revenue category. The separation of the foundation and the university should prevent double reporting in future financial statements.

Conclusion

Because of the errors outlined above, the Statement of Current Funds Revenue for the university is understated by more than $1,600,000 and for the experiment station by more than $300,000. Improper sales cut-off reduces the experiment station understatement to approximately

$282,000. Much of the revenue was recognized in the accounts of a separately incorporated entity, the Endowment and Research Foundation of Montana State University. Because of these errors, the financial statements of the university and the experiment station are misleading. The changing relationship between the university and the foundation is fully discussed on page 28 of this report.

UNIVERSITY-FOUNDATION TRANSACTIONS

In our recent audit reports on Montana College of Mineral Science and Technology (November, 1974) and the University of Montana (June, 1975), we raised several issues with respect to the relationship between the institution and its privately incorporated foundation. Many of the same issues are addressed in this report, as well as the significant changes taking place in the university-foundation relationship.

Higher education in the United States has always received financial support from private individuals and groups not directly affiliated with any education institution. Harvard, the nation's oldest university, is said to have been established in 1636 through two cash gifts and the donation of a library. Throughout these early years Harvard and other emerging universities were supported primarily by private gifts. At first the universities were able to operate on numerous small gifts, but as costs rose, so did the size of gifts, and eventually large philanthropic foundations were making sizable donations to educational institutions. Gifts were used for a variety of purposes, but the principal ones were: endowment funds wherein the principal remained inviolate and the fund income was used to finance college operations, construction of campus buildings, scholarships, and other student and faculty assistance.

Eventually, and especially with the advent of public universities, public tax moneys began flowing into the higher education system. By

1948, about 91 percent of the money for current operations for all colleges and universities (public and private) was derived from student fees; federal, state, and local government grants and appropriations; auxiliary enterprises such as dormitories and bookstores; and other miscellaneous sources. In contrast, gifts and endowment earnings accounted for only about nine percent of current operating revenues. Gifts from individuals and foundations continue to be important but are not a predominant source of income for higher education.

During the 1930's, 40's and 50's, a new type of foundation, the university foundation, was established at many colleges and universities. These foundations were usually non-profit corporations established specifically to provide assistance to the university with which they were affiliated. They differed from the large philanthropic foundations in that they did not provide an original source of funds but rather, solicited and received funds from others and then used the money for the benefit of their parent institution. Since these foundations are closely aligned with particular institutions, the governing board of these foundations generally include board members and officers of the parent institutions.

Originally many of these university foundations were established primarily to receive gifts and grants from donors who preferred not to give money directly to the institutions themselves. In this regard, it was evident that funds obtained and controlled by the foundation were free of appropriation and legal constraints and could be used with a flexibility not available to the institution itself.

Presently, many educational foundations provide administration and fiscal management for research programs. At the larger institutions

these research programs involve millions of dollars per year. In many instances the research is conducted by institution staff using institution facilities, and may be conducted under contracts between the foundation and a third party or between the institution and a third party. The Endowment and Research Foundation at Montana State University was established in 1946 as a non-profit Montana corporation. The articles of incorporation state that it was formed for the following purposes:

> "To promote educational objectives by encouraging, fostering and conducting investigations and research, and by acquiring and disseminating knowledge in relation thereto and,
>
> "To receive, or acquire, by gifts, devise, bequest or otherwise, any money or property, either absolute or in trust to be used, either the principal or income therefrom as may be directed, for the furtherance of any of the purposes which may be within its corporate powers and,
>
> "To purchase, sell and lease property, real, personal, or mixed, for the benefit of the Foundation and,
>
> "To create, purchase, hold and sell patent rights for inventions, designs, and copyrights, with the right to issue licenses for the exercise of rights relative to said inventions, designs, and copyrights, and to receive payment therefrom and to use and apply all moneys thus received for the fostering and advancement of investigations and research."

The foundation is governed by a 12-member board of directors. The university president acts as an ex officio member of the board of directors and the university business manager is the treasurer for the foundation.

Prior to July 1, 1975, the foundation's activities were similar to those of other foundations affiliated with units of the university system. These activities included fund raising on behalf of the foundation and the university and recordkeeping and administrative assistance for the various grants and contracts performed at the university. The bulk of the foundation's activities is in the area of grants and contracts.

The following table illustrates the source and amounts of foundation expenditures.

ENDOWMENT AND RESEARCH FOUNDATION OF
MONTANA STATE UNIVERSITY

EXPENDITURES BY SOURCE
Fiscal Year 1973-74

| Source | Amount | Percentage of Total Expenditures |
|---|---|---|
| Grants and Contracts: | | |
| Federal | $2,310,895 | 56% |
| State | 487,849 | 12 |
| Private | 803,992 | 19 |
| Other | 166,157 | 4 |
| Sales and Service | 311,501 | 8 |
| Gifts and Bequests | 51,387 | 1 |
| Total Expenditures | $4,131,781 | 100% |

Prior to July 1, 1975, the university did not properly record or report the grants received or the associated research costs. Instead, grant revenues were deposited into foundation accounts. Our review of selected foundation transactions disclosed over $1,000,000 in grant money given to the university but recorded in the foundation's records during fiscal year 1973-74. Over $299,000 in grant money given to the Agricultural Experiment Station was also recorded by the foundation. Neither the receipt of the grants nor the associated expenditures were reported in the financial statements of either the university or the station as being that entity's activity. Failing to properly report this information has resulted in misleading financial statements. The actual levels of the entities' activities are not fairly indicated in the respective financial statements.

Indirect Costs

In addition to the grants and contracts, indirect cost reimbursements of $534,494 were received by the foundation during fiscal year 1973-74. Indirect cost reimbursements are for expenses associated with various grants, but not strictly identifiable to one grant, such as janitorial work, accounting services, utilities and use of university assets.

The table below illustrates the use of indirect cost reimbursements during fiscal year 1973-74.

ENDOWMENT AND RESEARCH FOUNDATION OF
MONTANA STATE UNIVERSITY

SUMMARY OF INDIRECT COSTS
Year Ending June 30, 1974

| | | |
|---|---|---|
| Beginning Cash Balance | | $ (8,920) |
| Indirect Costs Received | | 534,494 |
| Other Income | | 12,266 |
| Total | | 537,840 |
| Transfers: | | |
| Research Support | $193,678 | |
| Research Administration | 248,242 | |
| Return to Departments | 63,147 | |
| Total Transfers | | 505,067 |
| Ending Cash Balance | | $ 32,773 |

The foundation returned significant portions of indirect cost reimbursements to research projects and administration of research projects. For example, transfers for research support funded travel for grants and visiting researchers, purchased research equipment, and provided funds for the Legislative Intern Program. Research administration support provided money for administrative salaries in departments

with large research projects and partially supported university research centers. The money for research and administration support was allocated by the university's vice president for research and could be spent only for the specific purposes designated when the allocation was made.

Money returned to departments is discretionary and is spent at the direction of the department heads. The $63,147 included $39,647 returned to departments in which research was conducted and $23,500 was available for use by the president's office. Money returned to the departments was used in various ways, including purchase of supplies, office equipment and payment of travel expenses.

Changing Role of The Foundation

Since July 1, 1975, significant changes have taken place between Montana State University and the Endowment and Research Foundation, as well as between other units and their respective foundations.

At Montana State University, administering grants and contracts is done by the university rather than the foundation. Actually, this change constituted little more than retitling of employees since the foundation accounting office previously relied upon the university for computer services, banking services, and clerical operations dealing with cash receipts and disbursements, purchasing and payroll.

Previously, grant contracts stated that grants were administered by the foundation. Now the administration of grants is formally a university function. The immediate benefit from this arrangement is to improve the university's financial accounting and reporting. Grant moneys are now in the state treasury and transactions are treated as university receipts and expenditures. The university plans to include in its fiscal year 1975-76 and future financial statements the grant and

contract activity, including indirect costs which were previously excluded from the statements.

The changes have also affected the foundation, limiting it to its more traditional activities of administering gifts, bequests and endowments. Activities associated with grants and contracts and those loan and scholarship moneys which are the property of the university have been returned, to be administered and reported by the university. Certain loan funds that were originally given to the foundation, but were administered and reported by the university, have been returned to the foundation.

The foundation has discontinued the use of university accounting and administrative services. Cash and investments are maintained independently of the university. The foundation developed its own general ledger and contracted with a local business to provide computerized accounting services. The foundation has a half-time employee who works in a university office. The foundation pays the salary of this employee and pays for the rental of the office space.

In their new relationship, the university and the foundation have not established written contracts or agreements which detail the work to be done by the university on behalf of the foundation or by the foundation on behalf of the university. For example, space rentals, administration of loans or payment of salaries should be discussed in a contract or formal written agreement.

During November 1975, the Accounting System Project prepared a discussion draft concerning the various units and their foundations. The draft contains thirteen recommendations discussing the normal

activities of foundations and the relationship between the schools and the foundation. It suggests that the foundation enter into a written agreement with its affiliated unit which recites the working relationship and understanding between them. It stresses the need for arms length transactions and outlines procedures regarding the acceptance of and accounting for contributions. The draft notes that the normal activities of foundations include the solicitation and administration of gifts and bequests for the purpose of furthering educational objectives. Gifts and grants given directly to the school should remain and be administered by the school.

At the time of issuance of this report, the foundation recommendations are being discussed by the various units and other interested parties.

## STUDENT AID

Financial aid is available in various forms to students of Montana State University. Assistance is available in the form of loans, scholarships, grants and work opportunities. The programs are administered through the university's financial aid office. Some forms of assistance are from private sources, including scholarships and gifts from alumni. Other assistance is provided through the coordination of jobs available to students at the university and with local businesses. The most significant forms of assistance, however, are federal programs, including the National Direct Student Loan (NDSL), Supplemental Educational Opportunity Grants (SEOG) and the College Work Study Program (CWS). Except for the SEOG program, the university must supplement federal funds.

### Controls and Procedures

Internal controls safeguard the university's assets and provide assurance of accurate reporting. Our review of controls and procedures

in the financial aid office revealed numerous problems which seriously weaken these controls.

Cash receipts are not properly handled. Significant amounts of cash arrive daily at the university for gifts, grants, loan repayments and processing fees. These payments are received and are forwarded to the financial aid office for processing. No listing is prepared by the financial aid office when they receive the payments. Deposit of this money with the univesity business office is on an irregular basis. For example, one deposit made during our review contained checks that had been received five to seven days prior to deposit. The deposit totaled over $68,000. Although university policy requires prompt deposit, we found that receipts are allowed to accumulate in the secretary's desk until there is a sufficient amount to make a deposit.

Many of the checks received were originally received by the business office, where they are restrictively endorsed and sent to the financial aid office for identification of the proper account in which to deposit the money. This procedure causes unnecessary handling of checks and increases the risk of loss or theft. As discussed on page 87 of this report, the university should correct cash handling procedures to eliminate transferring checks back to campus departments. Since the financial aid office is in the same building as the business office, this change should require minimal adjustment. Because some receipts will continue to be received in the financial aid office, procedures should be corrected to ensure adequate controls, including a listing of receipts and daily deposits with the business office.

The disbursement process also contains significant weaknesses. The university uses vouchers, most of which are prepared by computer, to

authorize scholarship, loan and aid checks. Students use these vouchers for payment of fees or room and board charges and receive any excess amount in cash. The vouchers are not adequately safeguarded and all student aid employees have access to them.

The system for approving vouchers is not adequate. Many are rubber stamped with the financial aid officer's signature. There are at least three signature stamps: one in the desk of a receptionist, one in the desk of a work study student and another in a file cabinet. These stamps are accessible to all employees.

The review process is also inadequate. Vouchers have been paid without any approval indicated. Related to the disbursement function is the processing and review of college work study payroll checks. This problem is discussed on page 36 of this report.

The financial aid office maintains its own disbursement records which are not adequately referenced into the university's records. Obtaining the vouchers for a particular student required reviewing hundreds of vouchers attached to claims which created the checks or warrants. This situation significantly increases the time required for error correction as well as the time required to audit the records.

Another key element of control which is basic to sound financial procedures is reconciling subsidiary records to the general ledger. Records maintained by the financial aid office frequently do not agree with those reported in the financial statements. The university is required to prepare a fiscal operations report for federal programs. Figures on this report are different from those reported in the university's official records and the financial statements. No successful procedures

have been implemented to reconcile these differences. This problem is discussed further in each individual aid area.

*RECOMMENDATION*

*We recommend that the university financial aid office correct the internal control weaknesses discussed above.*

National Direct Student Loan Program

The National Direct Student Loan Program (NDSL) was established under Title II of the National Defense Education Act of 1968. The program provides for establishment of an NDSL fund for the purpose of making long-term, low-interest loans to qualified students. Capital contributions are provided largely by the federal government; however, the university is required to contribute funds equal to one-ninth of the federal contribution. The university's financial statements indicate loans outstanding to students of $3,176,632 at June 30, 1974.

In addition to low-interest rates, NDSL's provide for a grace period after graduation; deferments extending the repayment period for service in the military, peace corps or VISTA; and cancellations of portions of amounts owed for teaching service or military service in areas of hostilities. A similar program is available to nursing students at Montana State University.

At Montana State University these programs are administered by the university. However, repayments, including all detailed accounts receivable recordkeeping, billing, and collection, were handled by the American National Education Corporation (ANEC). On July 1, 1974, these functions were transferred to the Labor Finance Industrial Bank of Denver, Colorado, and later to the American National Bank and Trust

Company of Chicago. The charge for bank services was based upon the frequency of billing and collecting. In August 1974, the university subscribed to limited services from the American National Bank and Trust Company. Billing and detail records are still maintained by the bank; however, the university is now directly responsible for collections and cancellations.

Our review of the programs at the university noted several problem areas, some caused by the American National Education Corporation and some due to university procedures. For example, records maintained by ANEC were not accurate. In one case, a student had both nursing and NDSL loans. Loan advances and repayments were transposed by ANEC, giving the wrong balance in both accounts. Another student was entitled to teaching cancellations which were improperly recorded by ANEC. Balances at the beginning and end of the fiscal year were incorrect. One student included in our current year disbursements tests was deleted from the records entirely. Other errors in the records stem from university procedures. Three students who had teaching cancellations recorded in university records did not have these cancellations recorded in the ANEC records. It appears that the university failed to notify ANEC of the changes.

We found two promissory notes signed by students that did not match accounting records. In both cases the university incorrectly coded the disbursements as nursing loans rather than NDSL.

Collection procedures are not adequate. A poor collection record could result in reduced federal contributions. At June 30, 1974, 11.8 percent of the dollar value of loans in repayment status, over $213,000, were delinquent over 120 days. Almost 7 percent of all students who

have outstanding loans cannot be located. The financial aid office has no record of where to send payment notices. This poor collection record stems from inadequate exit interviews with students graduating or leaving school. An exit interview is suggested in the NDSL Manual, which notes that the institution should conduct an interview ". . . with each borrower before he leaves the institution." It also notes ". . . the borrower should verify his permanent mailing address and be reminded to promptly give any change of address." Exit interviews are voluntary for students leaving school and informational packets are mailed to those students who do not attend. The university should review procedures to improve exit conference attendance. This should substantially increase the university's loan collections. The financial aid officer stated that collections did improve when the university assumed direct responsibility for collections instead of relying upon ANEC.

An additional problem encountered during our review was the failure of the financial aid office to reconcile its records with those maintained by the business office. Business office accounting records, including the general ledger, are the university records. Financial aid records are subsidiary to them and are meant to support business office records. The university financial statements indicate student loans outstanding at June 30, 1974, of $3,176,632. A June 30, 1974 trial balance supplied us by the financial aid office indicated $2,720,657. This trial balance did not include winter, spring and summer disbursements, and a reconciliation of the trial balance prepared by the financial aid office using financial aid records results in $3,176,741. Business office records, however, indicate that adjustments should result in a balance of $3,181,135. The total dollar differences in

themselves are not significant with regard to fair financial presentation. These differences, however, represent errors in individual student accounts. By failing to reconcile on a timely basis, errors are undetected and become more difficult to correct.

*RECOMMENDATION*

*We recommend that the university:*

1. *Establish reliable accounts receivable procedures for student loans.*
2. *Reconcile subsidiary accounts receivable records to the general ledger in a timely manner.*
3. *Review proceedures to improve exit conference attendance and attempt to conduct exit interviews with all students with loans leaving the university.*

## College Work Study Program

The college work study program was authorized by the Higher Education Act of 1965. The purpose is to expand part-time employment opportunities of students who are in need of the earnings from such employment to pursue courses of study at institutions of higher education. Part-time employment opportunities are expanded since 80 percent of compensation paid to students employed in the program is paid by the federal government.

Montana State University also administers the Montana Compact. This program provides for off-campus summer employment for students with qualified (non-profit, governmental) employers. Students at all Montana university units participate in this program. The federal share

of wages is 70 percent under the Montana Compact for students employed on off-campus projects.

Work study payments are processed by the MSU payroll department. Consequently, some of the internal control weaknesses discussed in the payroll section apply to the work study program. Comments concerning the payroll department are on page 50 of this report.

Our review of the college work study program at MSU disclosed accounting and internal control weaknesses that should be corrected to properly administer the program.

The basic internal control weakness lies in the approval and distribution of work study payroll warrants. All work study time cards are submitted to the financial aid office for approval. Review and approval is done by a work study student, who tests computations of gross pay. After the payroll warrants are printed, they are returned to the financial aid office and prepared for mailing by the same employees who had access to and approved time cards. Although we did not find instances of this occurring, this situation greatly increases the opportunity to create payroll warrants for fictitious employees or to conceal changes and errors. Financial aid office officials stated that they maintain a current address for each student and are thus best able to distribute the warrants. Internal control would be strengthened significantly if this practice were discontinued. Employees should be required to notify the payroll department of any change of address.

The university's accounting control over work study money is not adequate. The fiscal operations report, which reports college work study program activities, was not prepared from the university's financial records and does not agree with these records. Federal reports are

prepared from the financial aid office records which do not reflect university cash receipts and disbursements.

In addition, the university general ledger does not adequately present activity in the Montana Compact. The university establishes an account receivable when paying students employed off-campus. The receivable represents the employer's 30 percent share of wages paid under the program. This account had a balance of $91,829 at June 30, 1974. Because adequate detail records were not maintained, approximately $16,000 of this account appeared to be errors made during past years. Consequently, the university reduced this receivable by $16,000. The remaining $75,000 is not adequately accounted for. The result is that employers under the Montana Compact owe MSU money, but amounts owed by each employer cannot be accurately determined. In April, 1975, the MSU business office established procedures to reconcile this account on a monthly basis; however, the financial aid office has not prepared the reconciliations.

*RECOMMENDATION*

*We recommend that the university:*

1. *Establish procedures to improve internal controls over the college work study program.*
2. *Maintain proper documentation for payments made under the Montana Compact.*

Other Federal Student Aid Programs

The university financial aid office administers the supplemental Educational Opportunity Grant Program (SEOG) which provides financial assistance to undergraduate students of exceptional financial need who

otherwise could not attend college. MSU also administers a similar program for nursing students (NEOG). These programs provide money which need not be repaid by the recipient. In addition, the university administers the Law Enforcement Education Program (LEEP) which provides grants or loans to students studying law enforcement or related fields.

Our review disclosed that the university is in compliance with the provisions of these programs; however, the internal control and accounting weaknesses discussed in this section are applicable. Small unreconciled differences exist between records maintained by the university business office and the financial aid office. The present voucher method of disbursing grant funds does not provide adequate safeguards over this money.

Local Loan Funds

At June 30, 1974, the university administered institutional loan funds with assets of $199,189. The loan funds were given to the university by individuals and organizations to provide for short-term loans to students. Because records created and maintained by the financial aid office are inadequate, we were unable to satisfactorily audit this account. The financial aid office could not supply us with complete lists of loans outstanding at the beginning and end of the year. In addition, the lack of an audit trail made the transaction testing difficult.

The university financial statements also incorrectly list ownership of certain loan funds. Of the $199,184 presented, $139,641 belonged to the Endowment and Research Foundation. On June 30, 1975, these funds were transferred to the foundation, and in the future will correctly appear on the foundation's financial statements rather than the university's.

At the same time the foundation transferred $184,000 of scholarship funds to the university which actually were the property of the university. While this transaction will not affect the amount of money available for student aid since the same loans and scholarships will still be made to students, it does significantly affect the university's financial statement presentation. The relationship between the university and foundation is discussed in this report on page 23.

Allowance for Doubtful Receivables

The university has over $3,800,000 in loans receivable from various student aid programs. The largest portion of this, almost $3.2 million, are receivables from the NDSL program. Of the NDSL loans, over 11 percent are delinquent and some will certainly not be collected. The university should disclose uncollectible receivables in its financial statements. Failure to do so results in an overstatement of university assets. When program restrictions do not permit writing off the bad debts, the university should establish a reserve to assure proper financial presentation.

*RECOMMENDATION*

*We recommend that the university establish an allowance for doubtful accounts.*

Withholding Transcripts

MSU withholds transcripts of students who have gone through bankruptcy proceedings and have outstanding loans.

The purpose of the Bankruptcy Act is to relieve debts and allow a person a new start without any obligation to pay debts discharged in a bankruptcy proceeding. Withholding a student's transcript is an attempt

to force the student to repay a loan he is not legally obligated to pay after bankruptcy. This policy is contrary to the purpose of the Bankruptcy Act which relieves the student of the obligation. Currently, the university has "holds" on eleven student transcripts. The university will not release transcripts to those students.

The university relied upon two legal decisions which seemingly support the withholding of transcripts in bankruptcy cases. The first is a 1966 Wisconsin Attorney General's opinion. The rationale in this case was overruled in 1971 when the United States Supreme Court found unconstitutional a similar provision in Arizona laws. The second decision relied upon by the university is a bankruptcy case in the United States District Court for the District of Colorado. The court granted a motion to dismiss from the proceedings, the University of Colorado, which had withheld the transcript of a bankrupt student. The dismissal was based upon procedural grounds, however, and did not go to the merits of the question. The presiding judge, in his conclusions, stated, "the court is sympathetic to his cause but without jurisdiction cannot act further in the matter."

In our opinion, the university has no statutory authority to enforce collections through withholding transcripts. Legal decisions relied upon by the university are no longer valid or do not apply.

*RECOMMENDATION*

*We recommend that the university discontinue the policy and practice of withholding transcripts of students who have unpaid college loans when the students have gone through bankruptcy.*

Processing Fee

All students other than first-time enrollees have been charged a one dollar student aid application processing fee each time they applied for financial aid. During fiscal year 1973-74, the university collected $1,648. in processing fees. The MSU Business Manager authorized the fee approximately six years ago when the financial aid office was processing applications for many non-MSU students and forwarding these applications to the federal records center. Students can now send their applications directly to the records center, which eliminates the application processing for non-MSU students. The fee was not properly authorized by the Board of Regents and consequently was collected without authority.

On October 15, 1975, the MSU Business Manager directed the Office of Financial Aid to discontinue the fee.

Organization

The problems discussed in the preceding pages indicate a lack of coordination and cooperation between the MSU business office and the financial aid office. While responsibility and authority for administering student aid programs should rest with the financial aid office, accounting functions and controls should be transferred to the business office. The accounting records generated and maintained by the financial aid office are not adequate to ensure proper administration. Student aid programs are a large, important part of the operation of the university, and the financial and accounting responsibilities should rest with the business office.

The difficulties with contracted services for the NDSL program and nursing loans are presently under review by the university. Various solutions to this problem have been suggested, including returning the

account receivable function to the university. Regardless of the solution, the university should ensure that the business office monitors or controls the financial accounting requirements of the program.

*RECOMMENDATION*

*We recommend that accounting and financial responsibilities for financial aid activities be transferred to the university business office.*

PURCHASING

The Montana State University purchasing department operates to provide for the efficient and economical purchase of goods and services required by the university. The department is also established to ensure compliance with state purchasing laws and regulations.

The department is designed to serve all units of the university, including the experiment station, extension service and research foundation. During fiscal year 1973-74, various policies and procedures were applied to serve the various units. For example, while the university operated under the state purchasing system, research project purchases were processed locally and were not approved by state purchasing officials. While the university purchasing manual followed state guidelines, in practice there were frequent exceptions to these guidelines. Some items which should have required purchase orders and competitive bidding were obtained without either.

We noted instances where university departments purchased at prices higher than the lowest available to the university. We also noted frequent small local purchases of similar items by various departments. In these cases, the potential for bulk discounts was lost because the

university's purchasing power was fragmented. These problems and others are discussed in the following text.

Verbal Bids

During our review we noted that university departments accepted verbal bids from suppliers. The purchasing department did not require follow-up written bids. In one case, the university purchased a 4-wheel drive pickup for use in a research grant. The project director solicited verbal bids and informed purchasing of the quotations. He was then permitted to purchase a vehicle priced $184 above the lowest bid because it was from a local automobile dealer. The lowest bid was from a dealer 100 miles from Bozeman.

Other university purchases were made on the basis of verbal bids solicited by employees. The university purchasing department participates in these transactions only to the extent of approving the transactions; bids were solicited by university employees not associated with the purchasing department. Purchasing procedures would be significantly improved if the purchasing department solicited bids on behalf of all university departments.

We noted other purchases made from suppliers where there had been no competitive bidding. Employees stated that the goods or services could be obtained from only one source. We could not determine if the purchasing department had attempted to locate other suppliers to encourage competitive bidding. Such procedures weaken internal control over expenditures and do not give assurance that the university has obtained goods or services at the most favorable price. All bids should be solicited through the purchasing department, and major purchases should be supported by written quotations. The purchasing department should

develop lists of suppliers for items that are purchased yearly and encourage competition among vendors. Such procedures will help ensure that the university purchases are at the lowest possible cost.

*RECOMMENDATION*

*We recommend that the university purchasing department solicit bids on behalf of all university departments for required goods and services and require written quotations on major purchases.*

Centralized Purchasing and Receiving

Currently the purchasing department at MSU serves primarily the university. The experiment station and extension service are somewhat autonomous state agencies, although they are under the direct supervision and control of the university president. These agencies may use the university purchasing department, deal directly with state purchasing, or purchase independently and obtain after-the-fact approval of the university purchasing department. While actual payment for these purchases is made by the university business office, the purchasing function is frequently handled by experiment station or extension service employees. Although separate purchasing may provide some advantages in that those responsible for purchasing are closer to the problems and special needs of each unit, efficiency and economy would be best served by consolidating these functions.

College and University Business Administration (CUBA) notes that "responsibility for purchasing should be centralized under the chief business officer." It also lists some of the advantages of centralized purchasing, including "reduction of administrative costs, through

elimination of multiple purchasing staffs. . . ." and "definite economies resulting from the pooling and integrated, overall planning of the common requirements of the various departments." The university, the extension service, and the experiment station cannot each independently employ in an efficient manner employees who have the specialized skills and judgmental abilities required in the field of purchasing. The university, extension and experiment station should centralize purchasing under one department.

*RECOMMENDATION*

*We recommend that the university centralize in one department the purchasing functions of the university, the experiment station and the extension service.*

Coordination of University Purchasing

The university has established various auxiliary enterprises which act as service agencies for campus departments. Among these are the computing center, which provides data processing service; service shop and storeroom, which provides maintenance and repairs and carries in stock some of the equipment and supplies required by the university; and chemistry stores, which orders and carries an inventory of chemical and scientific supplies.

These auxiliary enterprises are similar to commercial enterprises in that they charge for their goods and services at rates which recover all operating costs. Rather than a profit, however, the goal of these organizations is to break-even. Service departments are frequently used by universities to obtain economies of scale while providing services required by various university departments. They also act as an efficient

means of allocating costs to the programs or departments that use the services.

Currently, use of the university service shop stores or chemistry stores is optional. Departments are encouraged to use these services but are not prevented from purchasing from other sources or dealing direct with state suppliers. This practice is not efficient and results in a considerable disadvantage to the university in terms of economy and sound purchasing policy.

For example, one research project purchased test tubes for $26.25. The same test tubes were in stock at the chemistry stores and could have been purchased for $20.21, including freight and handling charges. A university department purchased chemicals costing $5 direct from the supplier. The same chemicals were available for $3.85 from chemistry stores.

Agricultural Experiment Station employees in Bozeman purchase parts and supplies from local merchants. We noted the purchase of nuts, bolts, batteries, oil filters, paint and dozens of other items on a daily basis. Some items purchased were not stocked by the service shop; however, procedures to determine the station's annual need for items such as those listed above are not adequate. Consequently, the university loses the opportunity to purchase in efficient quantities for the use of the station, the extension service, and itself.

We noted other instances where departments purchased items independently of the service shop when these items were already in stock at the university. This situation may develop when the service shop "mark-up" increases the cost above that which a department would pay for the goods if purchased elsewhere.

For example, the service shop may purchase items costing $10 each which it sells to university departments at cost plus 10 percent, or $11.00. A department may be able to purchase the same item for $10.50 from another source and does not purchase from the service shop. The department seemingly saves 50 cents on each item. However, there are other costs to consider when making purchases from an outside vendor. Each order made independently of the service shop creates a requisition and local purchase order approved by purchasing. It creates an invoice, a claim and a warrant for payment. Service shop purchases create one claim for the entire university and one warrant.

Through statistical sampling methods we determined that approximately four percent of the university's 114,000 expenditure transactions, or approximately 4,500 transactions, were for office supplies from vendors other than the MSU service shop and storeroom. During one month we noted 30 separate claims and checks written to a single supplier for office supplies.

By purchasing on a departmental level rather than requiring the use of the service shop, departments effectively increase the hidden costs associated with purchasing. Service shop prices reflect the costs of purchasing, handling and processing, and service shop prices distribute these costs to those who receive the goods or services.

The university should require the use of the service shop storeroom for those items which are available. In addition, the university should expand the storeroom functions and coordinate these activities with the purchasing function. The university should determine need for the goods on an annual basis and purchase in quantity wherever possible. While the current university facilities and procedures are not adequate to

support a central stores, the effectiveness of the service shop storeroom and chemistry stores can be increased considerably.

*RECOMMENDATION*

*We recommend that the university expand the use of the stores facilities.*

New Purchasing Procedures

In April, 1974, the Department of Administration proposed significant changes in state purchasing procedures as they affect universities. The new procedures, effective as of November 1, 1975, but not implemented until February 1976, appoint university officials as state purchasing agents, and allow them to issue state purchase orders for amounts up to $1,000. Amounts over $1,000 will still be handled by the purchasing division in Helena.

Another significant change in university accounting was the deposit of money in the state treasury, effective September 30, 1975. Formerly, significant portions of university money were considered local. These funds were kept in local bank accounts and expenditures were made using university checks. Local expenditures were processed entirely in Bozeman and were not subject to review by the state purchasing division. State purchase orders were not issued in all cases for expenditure of local funds. Under the new procedures, however, all university funds will be expended by state claims, and purchase orders will be required when purchasing laws and regulations are applicable. Many of these state purchase orders will be issued by the university purchasing agent. As discussed earlier in this section, we noted inadequacies in bidding procedures and purchasing policies at the university. Since the new

procedures will place added responsiblities on the university purchasing department, the university should ensure prompt implementation of recommendations for improvement.

PAYROLL

As with other units of the Montana University System, the Montana State University payroll is processed and handled outside of the state's central payroll system. University employees are paid on the basis of time and attendance data collected and retained at the university level. The university payroll department also processes payroll warrants for the extension service and experiment station.

The payroll warrants prepared by the university resemble regular state payroll warrants in that they are drawn on the payroll revolving fund in the State Treasury and are signed by the State Auditor. In preparing these warrants, the university uses a facsimile signature plate to imprint the State Auditor's and the University Business Manager's signatures. Periodically, the university transfers money to the treasury payroll revolving fund by means of journal voucher and university checks. Journal vouchers are used to transfer appropriated moneys to the payroll revolving fund. University checks have been used to supplement the payroll revolving fund in the amount of non-appropriated salaries. Since October, 1975, when local university funds were transmitted to the State Treasury, a journal voucher only is used to transmit the funds.

Our review of the university's payroll operations noted several areas which require improvement.

Payroll Processed Before the Fact

Most university salaried employees (approximately 650) are paid on the last working day of each month. The payroll for these employees is

created five to ten days prior to the end of the month on the assumption that each employee will work the entire month. In those instances where an employee terminates or takes leave without pay, an adjustment must be made in the following month. The university payroll director explained that a considerable amount of time and effort is needed to make corrections and recover overpayments. For example, during December 1975, one employee who terminated during the month was overpaid by more than $600. The payroll supervisor stated that the university must now attempt to collect the overpayment.

Except for the salaried employees, university employees are paid based upon actual time and attendance records. In all other state agencies employees receive warrants at least six days after the end of the pay period. The only state employees who are not paid after the end of the pay period are certain salaried employees at each university unit. Except for tradition, we could find no justification for processing payroll before the fact at Montana State University or at other units.

Prior to adoption of a central payroll system, many state agencies processed payroll and paid employees before the fact. Our first audit report, issued January 29, 1968, discussed the costly problems and adjustments involved in processing payroll before the fact. Subsequent to this audit report's issuance, the central payroll system was changed so that payment for service is made after the end of the pay period.

Salary payments should be based upon accurate and factual data rather than assumptions made before the fact. This is customarily accomplished by means of a time lag from the end of the payroll period to the time of payroll processing. Each of our recent audit reports on the various units of the university system discussed the problem of processing

payroll before the fact. Correction of this problem is necessary if university payrolls are to be efficiently and accurately processed.

Since the problem exists at each unit of the university system, corrective action should be taken by the Office of the Commissioner of Higher Education. The Commissioner should assure that payroll for all university employees is processed on the basis of actual time and attendance records rather than assumptions made before the fact.

*RECOMMENDATION*

*We recommend that the university process and issue payroll warrants based upon actual time and attendance information.*

## Recordkeeping and Retention

A primary function of the university personnel department is to maintain a complete personnel record for each non-academic employee and sufficient records to ensure proper pay and withholdings for each academic employee. Other information concerning academic personnel, such as publications or credentials, is normally maintained in the administrative vice-president's office. The university personnel office does maintain leave records for most university employees. However, leave records for academic, service shop, and extension service employees are maintained at different locations on campus. These records are accessible to employees outside of the personnel department. Since accumulated leave benefits represent actual liabilities to the university when an employee terminates, it is important that these records be maintained accurately and independently. Centralized control over all personnel files would promote efficient management and compliance with state labor laws and regulations.

The university payroll department does not adequately maintain or review time cards. Although all time cards are required to be signed by the employee and the supervisor, we noted cases where supervisors had signed the employee's name and payroll warrants had been issued. No lists of authorized signers and no sample signature cards are available to ensure proper authorization. The payroll director explained that lists of authorized signers and sample signature cards are not useful because he does not have a large enough staff to review them anyway.

After processing, time cards are not properly stored. Several employees in our sample did not have time cards to support the amount of the payroll warrant. We were unable to determine if this was due to a failure to store the time cards or if these employees were paid without time cards. It is likely the time cards were lost since no uniform filing system existed at the time of our audit. Time cards were filed by employee name, others by type of payroll and others by social security number. Also, they were stored at two locations on campus.

Time cards, signed by the supervisor and the employee, are designed to relay the validity of a transaction through the accounting system. Failure to review time cards for authorization, and failure to properly retain these records increases the possibility for unauthorized transactions.

*RECOMMENDATION*

*We recommend that the university:*

1. *Centralize time and attendance records in the personnel office.*
2. *Review time cards on a test basis for proper authorization and retain them for review.*

Departmental Budgeting

Financial statements for the university, extension service, and experiment station indicate that salaries and benefits of over 16 million dollars were paid to university employees during fiscal year 1973-74. To control these expenditures, deans and department heads are allocated portions of the university budget and are required to ensure that expenditures do not exceed their portion of the budget. To assist the deans and department heads, the university prepares monthly budget reports which list and total expenditures. These reports list a total dollar figure for salaries. The payroll department sends each dean and some department heads detailed salary reports listing each employee and the amount paid. These two reports provide the basis for the university's internal budgeting process. In addition, they provide an excellent control of salary and expenditures. Each dean and department head can review expenditures charged to the department and ensure that all were authorized.

A wider distribution of these reports would improve accounting control over payroll. Currently, salary reports are sent only to deans and some department heads. Other department heads do not receive the salary report. Although we did not find instances of this occurring, this situation increases the possibility of a fictitious employee being placed on the payroll. The management level at which this could be detected, the department head, would not be aware of the situation. The university should ensure that appropriate management levels receive required accounting information. Combining the budget reports and the salary distribution reports for use by department heads would significantly improve accounting controls over payroll.

RECOMMENDATION

*We recommend that the university combine salary and budget reports and distribute these reports to all department heads and deans.*

Personnel Department Interviews

The personnel department does not interview all newly hired or terminated employees. This interview could consist primarily of having the employees complete payroll withholding forms or a termination notice, as applicable. Decisions regarding selection and termination of employees are the responsibility of the employing department; however, the personnel department should notify the payroll department of additions, deletions and other pay changes, independently of the department hiring the employee. By requiring an interview from all employees, the university can gain assurance that only authorized employees receive payroll warrants.

RECOMMENDATION

*We recommend that the university personnel office staff meet with newly hired and terminating employees.*

Leave Accrual

Professional employees working under a twelve month contract for the university earn annual leave at the rate of 1-3/4 days per month. This includes 76 employees who do not hold academic rank, such as the internal auditor, fieldhouse manager, director of purchasing, and director of the physical plant, as well as the academic employees of the university. Section 59-1001, R.C.M. 1947, states that employees of the State of Montana with less than ten years of service shall accrue leave at the rate of 1-1/4 days per month, with an exception provided

for in Section 59-1007, R.C.M. 1947 for those who qualify as school teachers.

In 35 Opinions of the Attorney General, No. 2, dated January 31, 1975, the applicability of this statute to the regents and the separate units of the university system was addressed. The opinion states that limitations placed on the appropriations to the university requiring compliance with vacation leave are applicable to the regents and the separate units. House Bill 271, passed by the 44th legislative assembly contains a similar provision requiring compliance with Section 54-1001, R.C.M., 1947. House Bill 271 was the subject of a Supreme Court case decided on December 19, 1975; however, the specific provisions requiring compliance with vacation benefits was not an issue in the case. The court did state that the regents must certify compliance with the provisions of House Bill 271 or forgo the appropriation.

Certain administrative and professional employees at the university who do not hold academic rank may qualify as school teachers. The duties of each of these employees should be reviewed to determine the employees' status for leave accrual purposes.

The regents should direct that Montana State University, and other units where similar procedures exist, comply with state law. University administrative employees who do not qualify as school teachers should earn leave in compliance with Section 59-1001, R.C.M. 1947.

*RECOMMENDATION*

*We recommend that the university allow annual leave for non-academic professional employees only in the amount prescribed by law.*

## PLANT FUNDS

The university, extension service and experiment station do not maintain adequate accounting control over investment in plant for land, buildings and equipment. Although the extension service and experiment station financial statements are independent of the university's, accounting and financial statement preparation for these units is done by the university. For this reason, our comments and recommendations are directed primarily to the university.

### Land

Our 1970 audit report discussed deficiencies in the university's control over land. Among the problems discussed in that report were:

Records of land ownership are dispersed among three state agencies. They are inaccurate and incomplete.

The university general ledger is not supported by subsidiary records and the available records show no dollar value.

The legal description data for land varied in different files, and information such as grants of easements and right-of-ways and utilization data is not included in the records.

The university agreed with our recommendations in the 1970 audit report and stated that they had begun a program to implement the recommendations. However, their follow-up response in 1975 stated that compliance would require, ". . . the dedication of staff time not currently available." At the time of issuance of this report, the university has not corrected these problems.

*RECOMMENDATION*

*We recommend that the university develop and maintain accurate detail records of all land owned or controlled by the university.*

Buildings

The university general ledger is not supported by subsidiary building records. The financial statement figure which reports building values for the university, experiment station and extension service is not supported by historical cost data or adjusted for buildings which have been torn down or destroyed.

University records currently reflect all additions to buildings, either by improvement or new construction. Deletions from building accounts are not recorded, however.

To assure fair financial presentation, the university should establish values for each building and adjust the general ledger to agree with these values. Historical cost records are available for new campus buildings. Costs for older buildings could be established by appraisal or by supplementing building valuation research undertaken by the Endowment and Research Foundation in 1969. This research was done to establish building values for the purpose of calculating indirect cost rates. The university has not relied upon this work to adjust building valuations.

Our 1970 audit report of Montana State University suggested using this research as a base for establishing building values. On May 21, 1975, university officials stated that a feasibility study is underway; however, at the time of issuance of this report, no corrective action has been taken.

*RECOMMENDATION*

*We recommend that the university establish building valuations and adjust the subsidiary and general ledgers to agree with established values.*

Equipment

Beginning in 1971, the university established procedures to develop physical and accounting control over equipment inventories. The system utilizes computer facilities at the university to record all additions and deletions, as well as dates, location and cost. Developed by the university, the system appears to have the capability of providing physical and accounting control over equipment. Unfortunately, it does not now provide these controls. Property control procedures contain the following weaknesses which should be corrected.

Property control summaries contain errors which prevent using them to adjust the general ledger. For example, the summaries list a category called "other," which should be included in land, buildings, livestock or equipment. Items acquired by lease-purchase are sometimes excluded from inventory records.

Cost records are not adjusted to reflect trade-in or scrap value.

Physical inventories are not supervised or reviewed by accounting personnel. Adjustments to inventory are not investigated.

Inventory summaries are not referenced to supporting documentation, such as purchase order or claim number. Error detection, review and audit becomes difficult or impossible.

Current procedures could form the nucleus of an effective property system. The university should take the necessary steps to make the present system effective.

*RECOMMENDATION*

*We recommend the university revise property control procedures to provide adequate accounting and physical control over equipment.*

AGENCY FUNDS

Agency funds are those held by the institution as custodian or fiscal agent for individual students, faculty, staff members and organizations. At June 30, 1974, the university financial statements listed

agency fund assets of one and one-half million dollars. Our review noted several problems in the handling and accounting of these funds.

Cash and investments of over $161,000 were incorrectly classified as agency funds as illustrated in the following:

| | Cash and Investments June 30, 1974 |
|---|---|
| Current Unrestricted funds improperly classified as Agency Funds | $152,401 |
| Current Restricted funds improperly classified as Agency Funds | 1,840 |
| Unexpended Plant funds improperly classified as Agency Funds | 6,055 |
| Loan funds improperly classified as Agency Funds | 1,508 |
| | $161,804 |

In current unrestricted funds, the largest improper classification of funds, $85,338, was student activity fees. In 25, Opinions of the Attorney General, No. 74, dated March 20, 1974, the Attorney General held that this is public money. Although use is designated by the students and the school, these fees meet the criteria for current unrestricted funds and should be classified as such. The remaining classification errors in agency funds are a variety of accounts, including scholarships, donations, revenue and revolving accounts. These accounts were established over a period of years, during which time the university did not conduct periodic reviews of its agency accounts. During July, 1975, the university did review its agency accounts and corrected the improper classifications.

In addition to the improper classifications, the agency fund balance sheet overstates accounts receivable by approximately $86,000 due to an

accounting error. Investments for the Endowment and Research Foundation, presented at $440,678, are incorrect. Investments of $184,261 should have been classified as assets of other fund groups since they were originally given to the university. We could not determine the actual dollar value of the remaining investments, since only a portion were recorded in the university records; the remainder were invested directly by the foundation. The relationship of the university and the foundation is discussed on page 23 of this report.

The agency fund balance sheet also lists cash of $606,548. This is understated by $93,000 as a result of the university's preparing and recording refund checks before the end of the fiscal year and holding these checks before mailing. The checks were written June 29, 1975, and were held until approximately July 10 before distribution. Because of these errors, the Agency Fund Balance Sheet is misleading and does not fairly present agency funds at June 30, 1974.

*RECOMMENDATION*

*We recommend that the university:*

1. *Periodically review agency fund accounts to ensure proper classification.*
2. *Record refund expenditures in the year in which they are made.*

EMPLOYEE VENDORS

The university and experiment station purchase some goods and services from their employees. For example, the MSU assistant treasurer provided photo-finishing services to the university during fiscal year 1973-74. Another university employee provided broiling potatoes to the MSU food

service. Experiment Station employees provided hay, liquid nitrogen and horseshoeing services.

During fiscal year 1973-74, no purchase orders were issued for these services, nor were competitive bids solicited. In the following year, competitive bids were solicited for photo-finishing and the contract was subsequently shared by the MSU assistant treasurer and a local merchant. There was correspondence between the university, local merchants and the Attorney General's office concerning the photo-finishing contract; however, no violation of law or impropriety was found in the transactions. We reviewed transactions with employees and found that all appeared to be legitimate transactions, with the university receiving the goods and services at reasonable prices.

Section 59-501, R.C.M. 1947, states that employees must not be interested in any contract of any agency of which they are employees. An exception occurs when the contract is awarded to the lowest responsible bidder based upon competitive bidding procedures. Although the university's transactions with employees appeared to be valid and proper, there was no competitive bidding except for photo-finishing. Consequently, these university transactions are not in compliance with Montana statutes.

The MSU faculty handbook discusses conflict of interest; however, the policy deals mainly with consulting and research. It does not address conflict of interest in relation to employee vendors or require competitive bidding.

The Board of Regents does not currently have a policy concerning conflict of interest. Such a policy should be established to clearly

define allowable and unallowable business transactions between an employee and the university. Lack of such a policy has resulted in a situation where the university is not in compliance with Section 59-501, R.C.M. 1947.

*RECOMMENDATION*

*We recommend that the university and the Board of Regents establish a conflict of interest policy which complies with state law.*

MONTANA AGRICULTURAL EXPERIMENT STATION

Certain aspects of our review dealt with the efficient and economical performance of the Montana Agricultural Experiment Station. Since the station is primarily involved in agricultural research, it operates farming and ranching operations at various locations in the state. We visited most of these operations and reviewed procedures and controls over livestock and other activities unique to farming and ranching operations.

Leasing

During fiscal year 1973-74, the Agricultural Experiment Station made lease payments of over $80,000. This included $26,000 for land leases and $54,000 for equipment. The equipment leases were mostly for farm equipment, including tractors and combines. We noted that the experiment station has no procedures developed to determine if a purchase would be more economical or practical than a lease. Leasing offers certain advantages and disadvantages; however, the decision to buy or lease is complex and requires a comprehensive assessment of objective and subjective factors before a decision can be made.

The primary advantages of leasing accrue to a commercial business in the form of tax and debt structure advantages. Both commercial and non-profit organizations can benefit from the ability to use new and untried equipment with a limited capital risk. Both commercial and non-profit organizations face the same disadvantage in the loss of residual rights upon lease termination.

The decision to lease or purchase in a commercial enterprise is usually based upon an analysis of return on investment. This is not an entirely valid tool for a non-profit organization such as the experiment station, since research is the primary objective rather than earnings. Cash flow analysis, however, is a useful tool in reviewing a decision to lease or purchase. This involves comparing the present value of lease payments to the purchase price, while considering residual value, warranties and repair and maintenance expense. Modern management techniques are available to help quantify risks and evaluate subjective information.

The Agricultural Experiment Station does not perform this type of analysis. The station should carefully analyze and document each decision to lease or purchase, relying upon cash flow analysis. The station should review its long-term capital requirements and budget for lease or purchase accordingly.

At the Northern Branch Station in Havre, the experiment station leases two small parcels of land on which long-term research is conducted. The research deals with crop rotation and continuous cropping over a period of 10 years or more. No lease agreement has been prepared, and the lease is actually a verbal agreement renewed each year. The researcher in charge of the project stated that area ranchers did not

want to enter long-term written agreements and that verbal agreements improved community relations. The researcher also noted that if the verbal leases were not renewed, the project would have to be restarted, since the research measured long-term effects on the land.

Failure to obtain long-term lease agreements for this type of research involves the risk that years of research could be terminated before completion, with the loss of considerable time and money. Certainly, the ability to obtain a long-term lease and community relations are considerations in any such project. However, the risk of project termination should be a primary consideration. The station should secure written agreements for all long-term research projects on leased land.

*RECOMMENDATION*

*We recommend that the university:*

1. *Analyze and document lease or purchase decisions and budget for long-term capital needs accordingly.*
2. *Secure written lease agreements for all long-term research projects.*

## Livestock

The financial statements of the Montana Agricultural Experiment Station list livestock with a market value of one and one-half million dollars, including sheep, swine and cattle. Livestock inventories are located throughout the state; however, the U. S. Range Livestock Experiment Station at Miles City has the largest inventory with cattle valued at almost one million dollars.

Perpetual inventory records are maintained by each department which has livestock. Because the animals are used in research, most are inspected and weighed at least quarterly.

Proper control is not maintained over the cattle inventory at the dairy center. The dairy center runs approximately 180 Holstein cattle on approximately 100 acres of land. The land is divided into eleven pastures. It is located less than one mile from the university campus. During our review, the dairy center ran registered Holsteins and grade, or non-registered, Holsteins. Our inventory of dairy center cattle was taken in August 1975. At that time, one cow was missing. Losing one grade Holstein in a fenced pasture indicates a serious weakness. University personnel informed us that the cow missing during the August inventory was located in November. They stated that the cow had been transferred to another university research facility, but that records had not been updated.

Grade Holsteins are not permanently identified as university property. They do have vaccination identification and tattoos, but these are usually illegible. They are identified by easily removed eartags. Registered Holsteins are identified by pictures or drawings of their body markings. These markings are unique and can be used to identify specific animals.

The university should ensure that all of its property, including livestock, is permanently identified. Both registered and non-registered animals should be permanently marked.

In addition to the failure to permanently mark animals, it is not possible to trace sales of specific animals into inventory records. When cattle are sold, the perpetual record is marked; however, the date of

sale is not posted. It is not possible to determine if revenue was received from the sale of a specific animal. A missing or stolen animal could be concealed by merely placing the word "sold" on the perpetual inventory card. With the addition of a date or receipt number, control is significantly increased since the sale can then be traced to a supporting cash receipt.

An additional problem in accounting for livestock involves the determination of market value at the inventory date. Currently, each department that controls livestock makes its own determination of the market value of these animals, with the result that similar animals were valued at different prices. Adequate perpetual inventory records should be maintained by an individual responsible for the animals; however, the valuations should be done in a uniform manner by the station accounting office. This would ensure that inventory values are properly presented in the financial statements. Our review disclosed that livestock inventory values are overstated by a net amount of approximately $55,000 due to valuation procedures, unrecorded livestock, and computation errors in the development of the perpetual records. The total dollar error, which should be corrected in future years, does not significantly affect the fair presentation of the financial statements.

*RECOMMENDATION*

*We recommend that the university:*

1. *Permanently identify dairy center cattle and record sale dates and receipt numbers in the perpetual inventory records.*
2. *Assign market values to livestock inventory in a uniform manner.*

Dairy Center Gas Pump

Physical and accounting controls over the dairy center gas pump do not provide assurance that the gasoline is used for authorized purposes only. Located on the dairy center compound, the gas tank is not visible to any employees except those working in the shop area. Frequently the shop is not occupied. The pump is not locked during daylight hours.

All vehicles using the pump are required to record gasoline use; however, we could account for less than one-third of the 760 gallons of gas used during approximately a one-month period. There is no attempt by station employees to reconcile gasoline used with amounts recorded in the log book.

This situation significantly increases the possibility that some gasoline is used for unauthorized purposes. The station should take steps to protect all of its assets, including the careful recording of all gasoline used and investigation of differences. The station should also consider placing the pump in an observable location to discourage unauthorized use.

*RECOMMENDATION*

*We recommend that the university improve the physical and accounting controls at the dairy center gas pump.*

Sales of Beef to Employees

At the Northern Montana Branch Station in Havre, we learned of the unusual practice of employees trading overtime, vacation, or personal assets for beef produced at the station. Employees traded such items as lumber, a roto tiller, and a chain saw, as well as giving up unused vacation time or overtime hours. Other employees may purchase beef and

make payments over a period of several months. At June 30, 1974, station records indicate that employees owed \$994 for beef purchases. Station records indicate that one employee has a balance of \$175.11, owed since July 25, 1961.

Trading vacation time for beef violates Section 59-1003, R.C.M. 1947, which allows payment for vacation only upon termination. Trading overtime for beef violates numerous state and federal labor regulations. Trading personal assets for beef, as well as trading vacation and overtime, understates both revenue and expenditures of the station, since the sale is not recorded. Station revenue is therefore understated. Station expenditures are also understated, since an asset other than cash was used to purchase employee services or equipment.

Officials at the Northern Branch Station stated that the practice began as a convenience to employees. The practice of extending credit developed because employees could not afford to purchase a beef and pay for it with one check. As an additional convenience to employees, those trading vacation and overtime do so without paying social security or state and federal withholdings.

These procedures are in violation of the statutes and distort the financial statements; the station should discontinue this practice immediately.

*RECOMMENDATION*

*We recommend that the university:*

1. *Sell beef for cash only.*
2. *Treat all personal services as compensation to employees and pay this compensation through normal payroll procedures.*

## Northern Branch Station Gravel Pit

The Montana Agricultural Experiment Station owns a large gravel pit located at the Northern Branch Station at Havre. During fiscal year 1973-74, the station earned $2,500 from gravel sales. We could not determine if the station received the proper amount of revenue since controls over gravel removal are not adequate. The station has never measured or photographed the pit in an attempt to determine the amount of gravel removed yearly.

A local contractor pays a $500 minimum fee per year for any amount of gravel under 5,000 yards. No review is made of this yearly payment to determine if it is correct.

The Northern Branch Station should develop procedures to determine the amount of gravel removed, and the station should charge users accordingly. As with any state asset, procedures should ensure that gravel is properly disposed of and fair value is received.

*RECOMMENDATION*

*We recommend that the university institute procedures for measuring amounts of gravel removed and ensuring that proper payment is received.*

## Employee Housing

Thirty employees of the Montana Agricultural Experiment Station live in housing provided by the station. Housing is provided in Bozeman as well as at each of the seven research centers at other locations. A map of the locations of the research centers is included as Appendix I of this report. Rental charges are nominal, ranging from $30 to $100 per month, including utilities. Rent is based at $100 per month for

professional employees and $50 per month for other employees, with reductions in rent for older and smaller housing units.

Rather than making monthly rental payments, an employee's salary is adjusted according to the value of the housing. For example, an employee whose job classification entitles him to $12,000 per year receives $10,800 if he lives in housing valued at $100 per month. An employee who moves out of housing provided by the station has his salary increased by the value of the housing that he gives up.

The associate director of the experiment station stated that most employees were not required to live in station housing; however, he felt the station received a benefit from the employees living on station property since station assets were safeguarded and employees were on hand for emergencies.

Since salaries are adjusted in accordance with the value of the housing rather than employees paying rent, the benefits are not subject to state and federal income taxes. The station should pay employees their gross salary from which the employees pay rent.

The station may be creating a liability by failing to report the actual salaries and not withholding state and federal income taxes.

In addition, station employees may not be complying with applicable tax laws. The Internal Revenue Service has prescribed three general rules to determine if housing provided by the employer is non-taxable income. All three tests must be met:

1. The residence must be on the employer's grounds.
2. The housing must be provided as a benefit to the employer.
3. The employee must be required to live on the property.

Discussion with station officials indicates that the third test is not met. The only employees who should not be taxed on the value of the housing are those who meet all three tests. The university should ensure it is in compliance with applicable tax regulations.

Rental charges for housing provided to employees should also be reviewed. A sound rental policy would establish rents based upon the fair market value of the housing. Those employees who are required to live in state owned housing and whose presence provides a benefit to the station could receive rent reductions. The station should develop a uniform policy for all housing which relates rental rates to the value of the housing provided and the degree to which the housing meets institutional needs.

*RECOMMENDATION*

*We recommend that the university pay gross salaries to employees and charge rents based upon fair market value.*

## MULTILITH OPERATIONS

The Montana Cooperative Extension Service operates a printing and reproduction service on campus known as multilith. Services are provided to campus departments and organizations, with limited services for students and faculty. Multilith is essentially a service organization, providing services which might be purchased commercially, but because of convenience and cost savings, are provided by the institution. Service centers distribute costs to users on the basis of services received.

The multilith department has many of the characteristics of a service center; however, it is operated by the Cooperative Extension Service. Rather than being an independent service center, it is financed

partly by money appropriated to the extension service and partly by charges to users.

Our review disclosed that the current operation does not effectively distribute costs in relation to services received. In addition, certain revenues to the multilith operation have been used to pay salaries. These transactions are not reported on the financial statements. The Cooperative Extension Financial Statements report multilith revenue of $50,356. Additional revenue of $24,770 was placed in a university trust account and not reported in the extension service financial statements.

Since multilith does not operate as an effective cost center, the change in inventory of paper and supplies was not considered when determining revenue. If a cost of goods sold statement had been prepared, revenue would have been increased approximately $8,271 because of the change in inventory. Failure to record accounts receivable results in additional understatement of revenue of $6,033.

With revenue properly restated, it is possible to compare costs and benefits. The extension service provides 25 percent of the money required to operate multilith. The remaining 75 percent comes from multilith users other than the extension service. During fiscal year 1973-74, the extension service received 38 percent of the printing and reproduction services performed by multilith. Since the extension service provided only 25 percent of the required funding, the result is a "profit" of almost $16,000. This "profit" is available to the extension service at the expense of other university departments.

These problems could be corrected if the multilith operations were changed to a true service department. Since service departments are established to operate on a non-profit basis, users would be charged

only for operating costs without providing a profit to the operating agency.

Financial reporting should also improve significantly, since a service center will prepare a cost of goods sold statement that more accurately reflects activity.

The current cash receipts procedures used by multilith are not adequate. Multilith receives some cash in payment for printing services. The cash is not deposited or recorded. Instead, it is used to pay small bills. This understates both revenue and expenditures as well as providing inadequate control over cash. Also, checks that are received are not deposited in a timely manner. Receipts should be deposited with the business office promptly and intact.

*RECOMMENDATION*

*We recommend that the university:*

1. *Establish a multilith service center independent of the Cooperative Extension Service.*
2. *Correct the internal control problems discussed in this section.*

FEE WAIVERS

Students registering for classes at Montana State University pay a variety of fees each quarter. During fiscal year 1973-74, Montana residents paid $158.55 per quarter if enrolled full time. Non-resident students paid an additional $300.00 per quarter. Fees charged for full time enrollment are depicted in the table below.

MONTANA STATE UNIVERSITY
QUARTERLY STUDENT FEES
FISCAL YEAR 1973-74

| Fee | Amount Per Quarter |
|---|---|
| Registration | $ 15.00 |
| Incidental | 75.60 |
| Building Fee | 43.25 |
| Student Health Fee | 11.00 |
| Student Activity Fee (Optional To Graduate Students) | 13.70 |
| Total Fees for Residents | 158.55 |
| Non-Residents of Montana add: | |
| Non-resident Fee | 276.00 |
| Non-resident Building Fee | 24.00 |
| | 300.00 |
| Total Fee for Non-residents | $458.55 |

Collections of registration, incidental and non-resident fees during fiscal year 1973-74 totalled $2,779,716. The university waived registration, incidental and non-resident fees of $385,755. Since generally accepted accounting principles require that waived fees be listed as revenue, the financial statements indicate fee revenue from these sources of $3,165,471.

Statutory Authority

Montana State University waived fees in fourteen categories during fiscal year 1973-74. Only five of these categories were authorized by statute. The remaining categories were authorized by the Board of Regents.

Of the fees authorized by the legislature, the university waived the following amounts during fiscal year 1973-74.

| | |
|---|---|
| Indian Scholarship | $ 14,577 |
| Inmates of Custodial Institutions | 91 |
| War Orphans | 1,110 |
| Non-resident Fee | 105,547 |
| Montana Honorable Discharge | 2,717 |
| Total | $124,042 |

The remaining waivers of $261,713 were authorized by the Board of Regents without statutory authority.

Montana's new Constitution has raised the question of whether the legislature or the Board of Regents has authority to waive fees. Because this issue raises constitutional questions, we have made no recommendations relating to fee waivers in this report. Instead, we have requested an Attorney General's opinion on this subject.

ACCOUNTING PROCEDURES

The topics discussed in this section deal with matters which affect the financial statements of the university, extension service and experiment station. The responsibility for financial accounting, however, rests primarily with the university business office. The cash receipt and disbursement functions, general ledger entries, and financial statement preparation are done by business office employees. Consequently, our recommendations are addressed to the university.

Accrual of Expenditures

The purpose of an expenditure accrual is to set aside money to pay a liability incurred in one fiscal year but paid in another and, in so doing, match expenditures with the proper fiscal period. The term encumbrance is used in governmental accounting to denote an anticipated expenditure, however, not necessarily an expenditure for which a liability has been incurred. At June 30, 1974, the Statewide Budgeting and Accounting System required the university to accrue encumbrances as well as actual liabilities. However, encumbrances should not be included in the balance sheet as liabilities. Instead, encumbrances should be presented as a footnote to the financial statements.

The financial statements of the university, extension service and experiment station contain errors in properly accruing expenditures.

The university financial statements list current funds, unrestricted, education and general accruals of $707,268 at June 30, 1974. This was overstated by at least $56,006, the amount of encumbrances we noted that should not have been presented as accruals. This figure is offset by $20,660 in unrecorded liabilities and $101,487 in unaccrued payroll, with a net understatement of $66,141.

Current funds, restricted, education and general accruals are listed on the financial statements as $100 at June 30, 1974. This amount is understated by at least $9,563 in unrecorded liabilities.

Current funds, unrestricted, auxiliary enterprises are listed on the financial statements at $90,186 at June 30, 1974. This amount is understated by at least $56,667 in unrecorded liabilities. Liabilities at June 30, 1973 were also misstated, with the result that unrestricted expenditures are overstated by $16,399 in education and general and $11,307 in auxiliary enterprises.

The Agricultural Experiment Station financial statements list current funds, unrestricted, education and general accruals at $268,912 at June 30, 1974. This is overstated by $130,653 in encumbrances that should not have been reported as liabilities and offset by $877 in unrecorded liabilities. The net effect is an overstatement of $129,776 at June 30, 1974.

Station financial statements list current funds, restricted, education and general accruals of $105,095 at June 30, 1974. This is overstated by at least $79,535 in encumbrances that should not have been

reported as liabilities. Liabilities at June 30, 1973 were also misstated, with the result that unrestricted expenditures are overstated by $80,210 and restricted expenditures are overstated by $116,711.

The Montana Cooperative Extension Service financial statements list current funds, unrestricted, education and general accruals at $15,400. This is understated by at least $23,528 in unrecorded liabilities at June 30, 1974.

The extension financial statements list current funds, restricted, education and general accruals at $7,770. This is understated by $5,915 in unrecorded liabilities. Liabilities at June 30, 1973 are also misstated with the result that unrestricted expenditures are understated by $12,222. Restricted expenditures were not affected, since the beginning and ending errors are offsetting.

The university did accrue state funds in the manner prescribed by the Statewide Budgeting and Accounting System. However, the AICPA Audit Guide for Colleges and Universities requires that the university distinguish between encumbrances and true liabilities in the financial statements. At June 30, 1974, the university failed to do this, although they did disclose this variance from generally accepted accounting principles.

Additional errors were incurred when the university failed to accrue local funds. Salaries paid with local funds were accrued, but significant other liabilities do not appear on the financial statements. The agricultural station did accrue funds held locally; however, the distinction between liabilities and encumbrances was not maintained. The cooperative extension service identified all local claims which were

prior year obligations in order to prepare a federal report. However, these liabilities were not presented on the financial statements.

In October, 1975, the university transferred its "local funds" to the state treasury. All claims that are prior year obligations will probably be encumbered, which will reduce the number of unrecorded liabilities. The university will still be required to separate liabilities from encumbrances if liabilities are to be fairly presented on the financial statements.

*RECOMMENDATION*

*We recommend that the university develop procedures to properly differentiate between encumbrances and accounts payable in the financial statements.*

## Accounts Receivable

The majority of accounts receivable listed in the university's financial statements are intra-university receivables. These are amounts receivable from other fund groups or amounts due to the computer center or service shop and storeroom from other university departments at year-end. Intra-university receivables are paid through an automatic process each month. Bills are prepared and sent to the various campus departments. After three days, during which time errors are corrected and adjustments made, a single, consolidated transaction pays the bills for each university department. Other receivables are handled by the business office.

We noted the following weakness in the university's accounts receivable procedures:

- --Inadequate separation of duties. The accounts receivable clerk prepares the statements, mails them and receives payments. In addition, the clerk can prepare debit and credit memos and adjust accounts without approval of business office officials.
- --The university does not confirm accounts receivable, even on a test basis for sales made to non-university accounts.
- --No allowance for bad debts is established for sales made to non-university accounts.
- --Accounts are not reviewed by university officials on a periodic basis.

The failure to review accounts receivable on a periodic basis has resulted in a misstatement of several accounts receivable balances.

- --Accounts receivable, Agency Funds, is overstated by $86,739 due to uncorrected errors.
- --Accounts receivable, Current Funds Restricted, deferred fees is composed of errors and should have been reconciled and cleared before the financial statements were prepared.
- --Accounts receivable, Current Funds Unrestricted, education and general contains an account which includes receivables from employers under the off-campus college work study program. The account contained errors and the university could not identify who owed them money or how much.

There is a lack of coordination between the university, extension service and experiment station in the processing of receivables between departments. Service shop and computer center bills, which occur monthly, are automatically paid by university departments. Bills sent to the station and extension are processed like normal invoices rather than being paid automatically.

The experiment station delays payment of these bills as much as 90 days after receipt, even though the computer center and service shop are on campus.

While the extension service and agricultural station are somewhat autonomous, in that their functions are different from that of the

university, we could find no justification for the processing of intra-university transactions differently from those of the university.

*RECOMMENDATION*

*We recommend that the university:*

1. *Correct internal control weaknesses in accounts receivable.*
2. *Consolidate the Cooperative Extension Service and the Agricultural Experiment Station under the university's automatic accounts receivable process.*

Intra-University Payments

University departments frequently purchase goods or services from other campus departments. For example, various departments pay for services received from the computer center or for goods received from the service shop storeroom. Payment of these transactions involves creation of a claim, a check or warrant, plus additional accounting entries when the check is redeposited, often into the same account from which it was drawn. The result of these transactions is to increase the expenses in one department and increase the revenue in another. This type of transaction should use a journal voucher. Journal vouchers are accounting documents used to enter internal transactions, such as adjustments and interfund transfers or receivables and payables. Issuing a check to another university department increases risk of loss and increases the paperwork and handling required to process the transaction.

*RECOMMENDATION*

*We recommend that the university use journal vouchers to account for intra-university transactions.*

Inventory

The university operates three storerooms which provide supplies to other university departments. The service shop storeroom stocks office supplies, some furniture, and materials required for campus repair and maintenance. Chemistry stores stocks chemicals and glassware, and the central storeroom stocks food and non-food items for the residence halls. The operation of the central storeroom was reviewed by other auditors in connection with an audit of revenue bonds. Our review of the service shop and chemistry stores disclosed significant internal control weaknesses and unacceptable accounting practices.

The chemistry stores inventory pricing procedures produce unreliable inventory values. Year-end inventory is costed at retail catalog prices rather than cost or market, whichever is lower. For example, items with a suggested retail price of $10 may be purchased by chemistry stores for $6.50, the wholesale price to state agencies. After a 10 percent markup to recover handling costs, chemistry stores resells the items to campus departments for $7.15. For inventory purposes, goods remaining at year-end are valued at $10. Proper determination of income or loss requires an accurate inventory valuation. The chemistry store is not an effective cost center, since without proper inventory values, actual expenditures cannot be determined. Chemistry stores should value its inventory at cost or market, whichever is lower.

At the service shop, inventory controls and procedures are not adequate. Goods in inventory are all priced at the most recent invoice price, which is an unacceptable costing method. Inventory records are not tested on a periodic basis. Test counts revealed that 65 to 70 percent of the perpetual records contained errors.

The errors included both overages and shortages which were offsetting in terms of dollar errors. Although the inventory is costed at most recent prices, quantity purchasing at the beginning of the year with stocks at their lowest at the end of the year creates the dollar effect of first-in, first-out (FIFO) inventory costing. For the reasons mentioned, the inventory values at June 30, 1974, are not materially misstated; however, no assurance is provided that inventory in future years will not be in error.

The university should require that the service shop inventory be costed in an acceptable manner and that test counts be made of the entire inventory at least once a year. The service shop does test count its inventory when merchandise is recieved, and the perpetual records are adjusted to reflect the quantity of goods on hand. These adjustments are made by the same employee who maintains the perpetual records. Adjustments to inventory should be approved by an official not responsible for maintaining the perpetual records. Although we found no instances of such occurrences, an employee could adjust the records and conceal shortages in the inventory.

*RECOMMENDATION*

*We recommend that the university:*

1. *Improve its inventory costing procedures.*
2. *Require that a physical inventory be taken at least once each year.*
3. *Require approval by supervisory personnel for all inventory adjustments.*

Recharges

Certain university operations provide services to other university departments. For example, the business office processes claims and pays bills for the extension service, experiment station and auxiliary enterprises. The service shop provides janitorial services and pays utility bills. Allocation of these costs to the department or agency receiving the services is accomplished by the use of recharges which are estimated at the beginning of each year and become part of the budgets of the department or agency. Over $592,000 was recharged during fiscal year 1973-74.

Proper financial accounting and reporting requires that these costs be allocated on a basis that accurately reflects payments for services. Our review noted that the university has not reviewed its procedures for recharges since 1968, and that original estimates could not be located or were not adequate to support recharge computations. Without adequate computations or a proper review, certain university departments may be over or undercharged their share of university expenses. This would cause an error in the financial statements of one of the units, or result in incorrect fees charged by auxiliary enterprises. The university should develop procedures to ensure that recharges accurately reflect services rendered. University officials should periodically review these computations. These procedures will help assure proper financial presentation and ensure proper cost recovery by auxiliary enterprises.

*RECOMMENDATION*

*We recommend that the university establish sound criteria for recharges and periodically review the criteria.*

Unrecorded Bank Accounts

The university School of Nursing has four checking accounts in local banks at its extended campuses. The accounts, located at Anaconda, Billings, Butte, and Great Falls, had a combined cash balance of $11,590 at June 30, 1973 and $7,529 at June 30, 1974. The balances and transactions of these accounts are not recorded in the university accounting records. Instead, each campus maintains a checkbook and individually determines the propriety of the receipts and disbursements. The receipts into these accounts include student library fee assessments, sale of textbooks and other supplies to students and fees charged to students for a national nursing achievement test. Disbursements are made to purchase library books and supplies and pay for the nursing achievement tests. The accounts are similar to contingency accounts used by state agencies and were established to provide a convenience to students.

Our 1970 audit report recommended that the university record the cash in these accounts. A 1971 report from the university internal auditor reviewed the accounts and developed procedures to ensure these accounts were recorded; however, no action was taken. With the deposit of university money in the state treasury, the university should review the needs for these accounts and request an authorized contingent revolving account from the Department of Administration. If the local accounts are not essential to the operation of the extended campuses, they should be closed and the money deposited in the state treasury. The university should ensure that the receipt and expenditure of this money is reviewed and properly recorded in the accounting records.

*RECOMMENDATION*

*We recommend that the university deposit all nursing school money in the state treasury or seek authority for contingent revolving funds.*

## Intact Cash Deposits

The university chemistry stores sells glassware and supplies to university departments, researchers, and individuals. Some sales are made for cash. Rather than depositing all receipts, the chemistry store manager deposits only a portion of sales with the business office. Cash counts by auditors on two occasions resulted in cash on hand in excess of sales receipts. Cash receipts were not reconciled with cash on hand. When deposits were made, only cash equal to the sales slips was deposited. Additional cash was not deposited. We could not determine the source of the money in excess of sales slips; however, it could be from errors or from lost sales slips. The chemistry store should deposit all cash to the business office as well as reconcile cash receipts to the day's sales. All cash overs and shorts should be accounted for.

*RECOMMENDATION*

*We recommend that the university chemistry store reconcile cash on hand to sales and deposit all receipts intact.*

## Control Over Cash Receipts and Disbursements

Internal control over cash disbursements is necessary to assure that cash is used only for authorized purposes and that only authorized payments are made. Certain of the weaknesses discussed deal with the handling of "local" funds held by the university in checking accounts.

With the deposit of university money into the state treasury effective September 30, 1975, university "local" money now consists of a contingent revolving account.

Internal control weaknesses in the disbursement process are as follows:

Signature cards were not prepared for business office employees who review claims. These cards should display sample signatures of university employees who may authorize expenditures.

University checks require only one signature regardless of amount. Controls would be strengthened by requiring two signatures for high dollar payments.

Stale dated checks were not promptly written off. The checks and warrants cannot be cashed after six months and should be written off at the end of that period.

Business office employees erase typing errors on checks. This eliminates the safeguards provided by the control paper on which the checks are printed.

Vouchers for imprest petty cash funds were not prepared in ink or signed by the recipient of the cash.

Many campus departments use rubber signature stamps to approve claims. In each department visited, rubber stamps were not adequately safeguarded, increasing the risk of an unauthorized disbursement.

One business office employee has the responsibility of preparing and reviewing claims as well as control of the signature facsimile plate and the preparation of checks. These duties are not compatible since one employee could create both a check and a supporting claim.

Some checks are returned to the departments that originated the claims. The checks are returned for review or to enclose supplementary information before mailing. Checks should be mailed promptly by the business office.

Proper internal control over cash receipts is required to assure that all cash received is deposited, that all cash deposited is recorded in the accounting records, and that cash is adequately safeguarded prior to its deposit. All receipts are accounted for by the university business

office; however, some departments, such as the chemistry store and the food service, receive and collect cash for deposit with the business office. Some problems in the receipting process are discussed in this report under other topics. Other weaknesses in safeguarding cash receipts are as follows:

Checks received at some campus departments are not restrictively endorsed until transmitted to the business office. Checks should be restrictively endorsed at the time of receipt.

The combination to the business office safe is accessible to several employees.

Some departments which receive cash do not issue prenumbered receipts. Use of prenumbered receipts provides assurance that all cash received is recorded.

*RECOMMENDATION*

*We recommend that the university correct the cash receipt and disbursement internal control weaknesses described above.*

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the President of Montana State University and the Commissioner of Higher Education. The full texts of their responses are included in this report beginning on page 156. This is the last of seven audit reports issued on the Montana university system units and on the Office of the Commissioner of Higher Education.

We wish to express our appreciation to university, foundation and commissioner's office employees for their cooperation.

FINANCIAL STATEMENTS

EXHIBIT A

Montana State University
Bozeman, Montana 59715 Tel. 406-994-2701

Business Office

December 13, 1974

President Carl W. McIntosh
Montana State University
Bozeman, Montana 59715

Dear Presidbnt McIntosh:

The annual financial report of Montana State University for the year ended June 30, 1974 is submitted herewith. This report includes, in separate sections, the Montana Agricultural Experiment Station and the Montana Cooperative Extension Service.

The development and refinement of college and university accounting recently culminated in the issuance of two publications: Audits of Colleges and Universities and Report of the Joint Accounting Group. Combined, these publications represent the efforts of the American Institute of Certified Public Accountants (AICPA), the National Association of College and University Business Managers (NACUBO), and the National Center for Higher Education Management Systems (NCHEMS). As further explained in the "Summary of Significant Accounting Policies", this report is prepared in accordance with the generally accepted accounting principles recognized in those two publications.

In order to properly reflect comparability between years, the financial statements for the prior year have been restated as detailed in Note 1 in "Notes to Condensed Comparative Financial Statements."

Much time and effort in the Business Office has gone into financial statement preparation over the last few years as university accounting was being further developed and refined. Now that this process is stablized on a national level and the new and expanded accounting principles applied to this financial report, it is necessary that we further apply these principles to our budgeting techniques, to our detailed internal accounting systems, to the Endowment and Research Foundation and provide our support in behalf of assuring complete and uniform application of these principles within the Montana University System as a whole. Perhaps in furthering these goals lies the real significance of this years financial report.

Sincerely,

Thomas E. Nopper
Business Manager and Treasurer

TEN:rn

MONTANA STATE UNIVERSITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
JUNE 30, 1974

EXHIBIT B

FUND ACCOUNTING:

The accompanying financial statements are prepared in accordance with the principles of "fund accounting" wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. These separate funds are then combined according to their common characteristics into fund groups reflected in the accompanying financial statements.

Descriptions of the common characteristics of the funds contained in the various fund groups are presented in the Narrative Summary section of this report.

Procedures, policies and standards governing the presentation of the contained financial statements presentations were obtained from the Report of the Joint Accounting Group for Current Funds and Audits of Colleges and Universities for Loan, Endowment, Plant and Agency Funds. Any departures from these sources recommendations are hereafter delineated

ACCRUAL BASIS:

The accrual basis of accounting has been applied in the presentation of accompanying financial statements except for depreciation of fixed assets. Any departure from this basis is delineated hereafter.

OTHER:

Other significant accounting policies are set forth in the financial statements and accompanying footnotes.

DEPARTURES:

Current Funds -

(1) Restricted Current Funds Revenue presented includes all receipted funds designated under this catagory regardless of the extent they were expended.

(2) Summer Quarter Revenues for 1974 are included as Unrestricted Current Revenues for the fiscal period July 1, 1973 to June 30, 1974, while most of Summer Quarter 1974 expenditures are not reported until the subsequent year.

(3) University interdepartmental transactions, mainly in the Computing Center, Chemistry Stores and Service Shop Storeroom, are not eliminated from revenues and designated as transfers of expenditures, therefore, a limited amount of transaction duplication is presented when considering total University revenue and expenditure volume.

(4) Computing Center revenues and expenditures are presented entirely within Auxiliary Enterprises, including revenues received from and expenditures made in behalf of instructional and administrative departments.

(5) All fee waivers, including those for faculty and staff, are included in Scholarships and Fellowships.

(6) State purchase orders outstanding on June 30, 1974 and 1973 are included in accrued expenditures as of those dates and are included in expenditures for the years then ended.

(7) Unconsumed departmental supplies, exclusive of Auxiliary Enterprise inventories, are not inventoried and reported herein. Accordingly, expenditures are not adjusted for actual usage of those inventories.

(8) Except for personal services, expenditure accruals are not recorded on funds held locally by the University, including Auxiliary Enterprises.

Loan Funds -

(1) Uncollectible loans are written off when further collection efforts are deemed to be futile. Reserves for future uncollectible loans are not recorded.

(2) Interest is not accrued at year end on loans outstanding.

Investment In Plant -

Total Investment in Plant has not been adjusted to remove the cost of items sold, traded or scrapped.

Agency Funds -

Agency funds include an inmaterial amount of self-sustaining revolving Unrestricted Current Funds in the Student Business Office, Endowment Research Foundation and Trust Funds.

All Investments -

Interest income on investments is recognized when the investments mature or are sold. Accordingly, accruals are not recorded nor are premiums and discounts amortized.

Endowment and Research Foundation -

The Report of the Joint Accounting Group recommends disclosure of related research foundations in a university's financial statements. We concur in this recommendation and are currently updating the Foundation's project orientated accounting system in order to comply with this recommendation.

EXHIBIT C

MONTANA STATE UNIVERSITY
BALANCE SHEET - CURRENT FUNDS
JUNE 30, 1974

## ASSETS

### CURRENT UNRESTRICTED

| | | | |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| Unexpended State Appropriations - Year ended June 30, 1974 | $ 730,575.09 | | |
| | | $ 730,575.09 | |
| Cash - | | | |
| Held by State Treasurer | 40,426.33 | | |
| Held by University | 952,062.62 | | |
| | | 992,488.95 | |
| Accounts Receivable | | | |
| Other | 77,425.99 | | |
| | | 77,425.99 | |
| | | | 1,800,490.03 |
| AUXILIARY ENTERPRISES: | | | |
| Cash - | | | |
| Held by University | 998,911.55 | | |
| | | 998,911.55 | |
| Accounts receivable - | | | |
| University departments | 169,002.86 | | |
| Other | 13,260.38 | | |
| | | 182,263.24 | |
| Inventories | 532,079.43 | | |
| | | 532,079.43 | |
| Investments | 110,129.91 | | |
| | | 110,129.91 | |
| | | | 1,823,384.13 |
| Total Current Unrestricted | | | $ 3,623,874.16 |

(See accompanying notes)

## EQUITIES

CURRENT UNRESTRICTED

| | | | |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| Accrued expenditures | | | |
| State appropriations - | | | |
| Year ended June 30, 1974 | $ 707,268.08 | | |
| Other | 6,596.33 | | |
| | | 713,864.41 | |
| Fund balance (Exhibit D) | | 1,086,625.62 | |
| | | | 1,800,490.03 |
| AUXILIARY ENTERPRISES: | | | |
| Accrued expenditures | 90,185.61 | | |
| Account payable - University Dept. | 8,342.41 | | |
| Fund balances - (Exhibit D) | 1,724,856.11 | | |
| Contingent Liabilities (See Appendices II and III) | | | |
| | | | 1,823,384.13 |
| Total Current Unrestricted | | | $ 3,623,874.16 |

MONTANA STATE UNIVERSITY
BALANCE SHEET - CURRENT FUNDS
JUNE 30, 1974

EXHIBIT C

ASSETS

CURRENT RESTRICTED

| | | | |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| Cash - | | | |
| Held by State Treasurer | $ 3,291.47 | | |
| Held by University | 331,815.08 | | |
| | | $ 335,106.55 | |
| Accounts Receivable - | | | |
| Other | 1,654.56 | | |
| Deferred fees | (545.85) | | |
| | | 1,108.71 | |
| Investments - | | | |
| Held by State Treasurer | 5,000.00 | | |
| Held by University | 45,153.32 | | |
| | | 50,153.32 | |
| Total Current Restricted | | | 386,368.58 |
| Total Current | | | $ 4,010,242.74 |

(See accompanying notes)

## EQUITIES

CURRENT RESTRICTED

EDUCATION AND GENERAL

| | | | |
|---|---|---|---|
| Accrued expenditures | $ 100.00 | | |
| Fund balance (Exhibit E) | 386,268.58 | | |
| | | $ 386,368.58 | |
| | | | 386,368.58 |
| | | | $ 4,010,242.74 |

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUE
YEAR ENDED JUNE 30, 1974

EXHIBIT D

| | UNRESTRICTED | RESTRICTED | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| TUITION AND FEES (Schedule 20) | | | |
| Registration | $ 373,915.01 | $ -0- | $ 373,915.01 |
| Incidental | 1,796,472.31 | -0- | 1,796,472.31 |
| Nonresident | 995,083.65 | -0- | 995,083.65 |
| Laboratory | 16,091.60 | -0- | 16,091.60 |
| Continuing Education | 67,199.04 | -0- | 67,199.04 |
| Other | 78,044.47 | -0- | 78,044.47 |
| | 3,326,806.08 | -0- | 3,326,806.08 |
| GOVERNMENTAL APPROPRIATIONS - FEDERAL | 204,754.00 | -0- | 204,754.00 |
| GOVERNMENTAL APPROPRIATIONS - STATE | | | |
| General Fund | 8,077,122.00 | -0- | 8,077,122.00 |
| Millage | 2,085,303.00 | -0- | 2,085,303.00 |
| | 10,162,425.00 | -0- | 10,162,425.00 |
| GOVERNMENTAL GRANTS AND CONTRACTS - FEDERAL | | | |
| Federal Agencies | -0- | 166,879.07 | 166,879.07 |
| College Work Study | 508,400.00 | -0- | 508,400.00 |
| Educ. Opportunity Grants | -0- | 243,213.00 | 243,213.00 |
| Indirect Cost Allowance | 223,699.00 | -0- | 223,699.00 |
| Administrative reimbursement to Financial Aid Office | 68,416.56 | -0- | 68,416.56 |
| | 800,515.56 | 410,092.07 | 1,210,607.63 |
| GOVERNMENTAL GRANTS AND CONTRACTS - STATE | -0- | 15,997.75 | 15,997.75 |
| PRIVATE GIFTS, GRANTS AND CONTRACTS | -0- | 369,265.73 | 369,265.73 |
| ENDOWMENT INCOME (Note 2) | | | |
| Federal Land Grant (first) | 118,369.17 | -0- | 118,369.17 |
| Federal Land Grant (second) | 40,892.19 | -0- | 40,892.19 |
| | 159,261.36 | -0- | 159,261.36 |
| SALES AND SERVICES OF EDUCATIONAL ACTIVITIES - | | | |
| Home Management Lab | 261.32 | -0- | 261.32 |
| Film and TV | 6,639.56 | -0- | 6,639.56 |
| Child Development Center | 10,857.75 | -0- | 10,857.75 |
| Closed Circuit TV | 27,915.94 | -0- | 27,915.94 |
| Advance Registry | 67.00 | -0- | 67.00 |
| | 45,741.57 | -0- | 45,741.57 |

(See accompanying notes)

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUE
YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED | RESTRICTED | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: continued | | | |
| OTHER SOURCES | | | |
| Parking Facilities | $ 45,119.95 | $ -0- | $ 45,119.95 |
| Physical Plant Rent | 4,109.69 | -0- | 4,109.69 |
| Investment Income | 101,851.84 | -0- | 101,851.84 |
| Placement Office | 7,294.44 | -0- | 7,294.44 |
| P.E. Complex Fee | 3,643.50 | -0- | 3,643.50 |
| Vocational Education Reimbursement | 17,645.77 | -0- | 17,645.77 |
| Miscellaneous Income | 11,493.63 | -0- | 11,493.63 |
| | 191,158.82 | -0- | 191,158.82 |
| TOTAL EDUCATION AND GENERAL | 14,890,662.39 | 795,355.55 | 15,686,017.94 |
| AUXILIARY ENTERPRISES: (Note 2) | | | |
| Residence Halls | 3,175,176.31 | -0- | 3,175,176.31 |
| Family Housing | 583,300.47 | -0- | 583,300.47 |
| SUB Food Service | 308,844.23 | -0- | 308,844.23 |
| Student Health Service | 255,959.11 | -0- | 255,959.11 |
| Fieldhouse Operations | 136,107.28 | -0- | 136,107.28 |
| Athletics | 287,935.72 | -0- | 287,935.72 |
| Washers and Dryers | 22,545.92 | -0- | 22,545.92 |
| Campus and Football concessions | 19,287.69 | -0- | 19,287.69 |
| Identification cards | 2,948.00 | -0- | 2,948.00 |
| Library Copy Service | 28,673.28 | -0- | 28,673.28 |
| Art, Photo and Audio Visual | 69,444.64 | -0- | 69,444.64 |
| Service Shop and Storeroom | 702,011.83 | -0- | 702,011.83 |
| Technical Service | 13,993.90 | -0- | 13,993.90 |
| Program Ads and Sales | 10,649.01 | -0- | 10,649.01 |
| Chemistry Stores | 88,672.38 | -0- | 88,672.38 |
| Computing Center | 491,629.99 | -0- | 491,629.99 |
| (Schedules 23-38) | 6,197,179.76 | -0- | 6,197,179.76 |
| | $ 21,087,842.15 | $ 795,355.55 | $ 21,883,197.70 |

EXHIBIT E

# MONTANA STATE UNIVERSITY
## STATEMENT OF CURRENT FUNDS EXPENDITURES
## YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED (Schedule 1) | RESTRICTED (Schedule 2) | TOTAL |
|---|---|---|---|
| DUCATION AND GENERAL: | | | |
| INSTRUCTION - | | | |
| General Academic Instruction | $ 8,859,495.42 | $ -0- | $ 8,859,495.42 |
| Community Education | 74,389.45 | -0- | 74,389.45 |
| | 8,933,884.87 | -0- | 8,933,884.87 |
| RESEARCH - | | | |
| Institutes and Research Centers | 220,799.36 | -0- | 220,799.36 |
| Individual or Project Research | 8,752.93 | -0- | 8,752.93 |
| | 229,552.29 | -0- | 229,552.29 |
| PUBLIC SERVICE | | | |
| Community Service | 46,221.77 | 117,088.00 | 163,309.77 |
| ACADEMIC SUPPORT - | | | |
| Libraries | 673,096.30 | -0- | 673,096.30 |
| Museums and Gallaries | 69,625.78 | -0- | 69,625.78 |
| Audio/Visual Services | 37,897.48 | -0- | 37,897.48 |
| Ancillary Support | 80,199.23 | 14,766.06 | 94,965.29 |
| Academic Admin. & Personnel Development | 509,769.33 | -0- | 509,769.33 |
| | 1,370,588.12 | 14,766.06 | 1,385,354.18 |
| STUDENT SERVICES - | | | |
| Social and Cultural Development | 358,821.09 | -0- | 358,821.09 |
| Counseling and Career Guidance | 182,602.64 | -0- | 182,602.64 |
| Financial Aid Administration | 103,215.79 | -0- | 103,215.79 |
| Student Admissions and Records | 312,635.10 | -0- | 312,635.10 |
| | 957,274.62 | -0- | 957,274.62 |
| INSTITUTIONAL SUPPORT - | | | |
| Executive Management | 123,022.73 | -0- | 123,022.73 |
| Fiscal Operations | 317,901.99 | -0- | 317,901.99 |
| General Administrative Services | 218,322.07 | -0- | 218,322.07 |
| Logistical Services | 138,391.92 | -0- | 138,391.92 |
| Community Relations | 204,575.30 | -0- | 204,575.30 |
| Unallocated Recharges to Computer Center | (24,561.00) | -0- | (24,561.00 |
| | 977,653.01 | -0- | 977,653.01 |
| OPERATION AND MAINTENANCE OF PHYSICAL PLANT - | | | |
| Operation and Maintenance of Physical Plant | 1,380,111.65 | -0- | 1,380,111.65 |
| SCHOLARSHIPS AND FELLOWSHIPS - | | | |
| Scholarships and Fellowships | 385,755.00 | 569,496.92 | 955,251.92 |
| TOTAL EDUCATION AND GENERAL | 14,281,041.33 | 701,350.98 | 14,982,392.31 |

(See accompanying notes)

| PERSONAL SERVICES | OPERATIONS | BENEFITS (Note 3) | CAPITAL | TOTAL |
|---|---|---|---|---|
| ,066,376.96 | $ 746,899.79 | $ 778,232.50 | $ 267,986.17 | $ 8,859,495.42 |
| 42,944.47 | 25,087.65 | 4,737.87 | 1,619.46 | 74,389.45 |
| ,109,321.43 | 771,987.44 | 782,970.37 | 269,605.63 | 8,933,884.87 |
| 181,980.28 | 15,897.27 | 20,077.04 | 2,844.77 | 220,799.36 |
| 7,105.32 | 848.46 | 783.90 | 15.25 | 8,752.93 |
| 189,085.60 | 16,745.73 | 20,860.94 | 2,860.02 | 229,552.29 |
| 47,568.10 | 111,162.93 | 4,138.31 | 440.43 | 163,309.77 |
| 343,075.13 | 24,710.04 | 38,836.21 | 266,474.92 | 673,096.30 |
| 41,220.15 | 23,474.95 | 4,547.63 | 383.05 | 69,625.78 |
| 19,433.78 | 15,214.19 | 2,210.38 | 1,039.13 | 37,897.48 |
| 60,593.23 | 27,801.53 | 5,746.18 | 824.35 | 94,965.29 |
| 402,691.19 | 55,530.48 | 44,427.07 | 7,120.59 | 509,769.33 |
| 867,013.48 | 146,731.19 | 95,767.47 | 275,842.04 | 1,385,354.18 |
| 277,871.09 | 60,134.40 | 13,384.15 | 7,431.45 | 358,821.09 |
| 135,620.99 | 30,756.88 | 14,962.64 | 1,262.13 | 182,602.64 |
| 51,567.36 | 44,965.42 | 6,646.30 | 36.71 | 103,215.79 |
| 195,513.48 | 92,198.73 | 21,570.10 | 3,352.79 | 312,635.10 |
| 660,572.92 | 228,055.43 | 56,563.19 | 12,083.08 | 957,274.62 |
| 89,790.41 | 20,616.38 | 10,766.26 | 1,849.68 | 123,022.73 |
| 173,243.34 | 115,258.68 | 27,450.21 | 1,949.76 | 317,901.99 |
| 53,414.12 | 155,324.51 | 8,254.12 | 1,329.21 | 218,322.07 |
| 102,332.97 | 14,343.77 | 15,661.81 | 6,053.37 | 138,391.92 |
| 136,872.00 | 46,104.29 | 17,175.89 | 4,423.12 | 204,575.30 |
| (17,455.00) | (7,106.00) | -0- | -0- | (24,561.00) |
| 538,197.84 | 344,541.63 | 79,308.29 | 15,605.25 | 977,653.01 |
| 601,855.64 | 610,381.29 | 72,541.38 | 95,333.34 | 1,380,111.65 |
| -0- | 944,541.92 | 10,710.00 | -0- | 955,251.92 |
| 10,013,615.01 | 3,174,147.56 | 1,122,859.95 | 671,769.79 | 14,982,392.31 |

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS EXPENDITURES - continued
YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED (Schedule 1) | RESTRICTED (Schedule 2) | TOTAL |
|---|---|---|---|
| AUXILIARY ENTERPRISES: (Note 2) | | | |
| AUXILIARY ENTERPRISES - STUDENT - | | | |
| Residence Halls | $ 2,464,417.84 | $ -0- | $ 2,464,417.8 |
| Family Housing | 166,495.83 | -0- | 166,495.8 |
| Student Health Service | 289,088.27 | -0- | 289,088.2 |
| Fieldhouse | 163,175.06 | -0- | 163,175.0 |
| Washers and Dryers | 9,823.50 | -0- | 9,823.5 |
| Library Copy Service | 27,861.92 | -0- | 27,861.9 |
| Student Union Food Service | 318,154.75 | -0- | 318,154.7 |
| Student Union | 7,972.08 | -0- | 7,972.0 |
| Identification Cards | 2,585.00 | -0- | 2,585.0 |
| Campus and Football Concessions | 5,595.69 | -0- | 5,595.6 |
| | 3,455,169.94 | -0- | 3,455,169.9 |
| AUXILIARY ENTERPRISES - FACULTY/STAFF | | | |
| Art, Photo and Audio Visual | 57,296.70 | -0- | 57,296.7 |
| Service Shop Storeroom | 711,333.19 | -0- | 711,333.1 |
| Technical Services | 16,842.80 | -0- | 16,842.8 |
| Chemistry Stores | 138,501.12 | -0- | 138,501.1 |
| | 923,973.81 | -0- | 923,973.8 |
| INTERCOLLEGIATE ATHLETICS - | | | |
| Athletics | 339,835.46 | -0- | 339,835.4 |
| PROGRAM ADS AND SALES - | 6,238.99 | -0- | 6,238.9 |
| COMPUTING CENTER - | 525,451.75 | -0- | 525,451.7 |
| TOTAL AUXILIARY ENTERRPISES | 5,250,669.95 | -0- | 5,250,669.9 |
| MANDATORY TRANSFERS - | | | |
| PROVISION FOR DEBT SERVICE ON AUXILIARY ENTERPRISES | 880,521.05 | -0- | 880,521.0 |
| LOAN MATCHING GRANTS | 57,891.11 | -0- | 57,891.1 |
| TOTAL MANDATORY TRANSFERS | 938,412.16 | -0- | 938,412.1 |
| | $ 20,470,123.44 | $ 701,350.98 | $ 21,171,474.4 |

(See accompanying notes)

| PERSONAL SERVICES | OPERATIONS | BENEFITS (Note 3) | CAPITAL | TOTAL |
|---|---|---|---|---|
| 907,375.57 | $ 1,397,503.91 | $ 130,476.58 | $ 29,061.78 | $ 2,464,417.84 |
| 45,504.80 | 114,631.55 | 2,837.49 | 3,521.99 | 166,495.83 |
| 212,000.44 | 52,087.23 | 23,906.50 | 1,094.10 | 289,088.27 |
| 31,196.21 | 126,446.66 | 2,573.55 | 2,958.64 | 163,175.06 |
| -0- | 9,823.50 | -0- | -0- | 9,823.50 |
| 7,185.66 | 20,047.48 | 578.03 | 50.75 | 27,861.92 |
| 139,989.23 | 160,889.18 | 17,233.24 | 43.10 | 318,154.75 |
| -0- | 7,332.08 | -0- | 640.00 | 7,972.08 |
| -0- | -0- | -0- | 2,585.00 | 2,585.00 |
| -0- | 5,595.69 | -0- | -0- | 5,595.69 |
| 1,343,251.91 | 1,894,357.28 | 177,605.39 | 39,955.36 | 3,455,169.94 |
| 31,104.74 | 22,156.43 | 3,939.96 | 95.57 | 57,296.70 |
| 390,443.76 | 266,683.28 | 52,809.22 | 1,396.93 | 711,333.19 |
| 11,869.25 | 3,369.92 | 1,194.03 | 409.60 | 16,842.80 |
| 24,092.31 | 110,962.18 | 3,434.48 | 12.15 | 138,501.12 |
| 457,510.06 | 403,171.81 | 61,377.69 | 1,914.25 | 923,973.81 |
| 46,718.06 | 288,894.17 | 2,415.24 | 1,807.99 | 339,835.46 |
| -0- | 6,238.99 | -0- | -0- | 6,238.99 |
| 206,207.03 | 258,486.30 | 20,792.53 | 39,965.89 | 525,451.75 |
| 2,053,687.06 | 2,851,148.55 | 262,190.85 | 83,643.49 | 5,250,669.95 |
| -0- | 880,521.05 | -0- | -0- | 880,521.05 |
| -0- | 57,891.11 | -0- | -0- | 57,891.11 |
| -0- | 938,412.16 | -0- | -0- | 938,412.16 |
| 2,067,302.07 | $ 6,963,708.27 | $ 1,385,050.80 | $ 755,413.28 | $ 21,171,474.42 |

EXHIBIT F

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES - CURRENT UNRESTRICTED FUNDS
YEAR ENDED JUNE 30, 1974

| | EDUCATION AND GENERAL | AUXILIARY ENTERPRISES | TOTAL |
|---|---|---|---|
| BALANCES - JUNE 30, 1973 | $ 440,355.57 | $ 1,565,389.19 | $ 2,005,744.76 |
| ADDITIONS: | | | |
| Revenues | 14,890,662.39 | 6,197,179.76 | 21,087,842.15 |
| Transfers In | 455,420.04 | 118,826.10 | 574,246.14 |
| Adjustments to prior year's income and expenditures | -0- | 113.95 | 113.95 |
| | 15,346,082.43 | 6,316,119.81 | 21,662,202.24 |
| DEDUCTIONS: | | | |
| Expenditures | 14,281,041.33 | 5,250,669.95 | 19,531,711.28 |
| Transfers Out | 415,304.99 | 905,982.94 | 1,321,287.93 |
| Adjustments to prior year's income and expenditures | 3,466.06 | -0- | 3,466.06 |
| | 14,699,812.38 | 6,156,652.89 | 20,856,465.27 |
| BALANCES - JUNE 30, 1974 | $ 1,086,625.62 | $ 1,724,856.11 | $ 2,811,481.73 |

(See accompanying notes)

# MONTANA STATE UNIVERSITY
## STATEMENT OF CHANGES IN FUND BALANCES - CURRENT RESTRICTED FUNDS
## YEAR ENDED JUNE 30, 1974

| | |
|---|---|
| BALANCES - JULY 1, 1973 | $ 699,220.29 |
| ADDITIONS: | |
| Revenues | 795,355.55 |
| Transfers In | 1,800.00 |
| | 797,155.55 |
| DEDUCTIONS: | |
| Expenditures | 701,350.98 |
| Transfers Out | 408,756.28 |
| | 1,110,107.26 |
| BALANCES - JUNE 30, 1974 | $ 386,268.58 |

(See accompanying notes)

# MONTANA STATE UNIVERSITY
## NOTES TO CURRENT FUND FINANCIAL STATEMENTS
## YEAR ENDED JUNE 30, 1974

(1) RECHARGES:
Some of the costs of certain University departments are recharged to the Agriculture Experiment Station, Cooperative Extension Service, Endowment and Research Foundation, outside agencies utilizing University services such as the Livestock Sanitary Board, Auxiliary Enterprises and other University departments. These costs, which have been eliminated from the expenditures of the departments wherein the costs originated, are as follows:

| | PERSONAL SERVICES | OPERATIONS | TOTAL |
|---|---|---|---|
| ACADEMIC SUPPORT: | | | |
| Libraries | $ 8,940.00 | -0- | $ 8,940.00 |
| INSTITUTIONAL SUPPORT: | | | |
| President's Office | 7,796.00 | -0- | 7,796.00 |
| Business Office | 75,568.00 | 10,726.00 | 86,294.00 |
| Classified Personnel Services | 21,438.00 | 717.00 | 22,155.00 |
| Purchasing | 6,619.00 | 319.00 | 6,938.00 |
| Advisory Council | -0- | 650.00 | 650.00 |
| Office of Information | 11,812.00 | -0- | 11,812.00 |
| University Development | 7,000.00 | -0- | 7,000.00 |
| Central Mail Service | 7,001.73 | 316.80 | 7,318.53 |
| Traffic and Security | 26,006.45 | 316.80 | 26,323.25 |
| Costs recharged in total to Computing Center | 17,455.00 | 7,106.00 | 24,561.00 |
| | 180,696.18 | 20,151.60 | 200,847.78 |
| OPERATION AND MAINTENANCE OF PHYSICAL PLANT: | | | |
| Administration | 7,001.74 | -0- | 7,001.74 |
| Buildings | 40,009.92 | 6,969.68 | 46,979.60 |
| Grounds | 9,002.23 | -0- | 9,002.23 |
| Heating Plant | 11,002.73 | 92,506.67 | 103,509.40 |
| Lights and Power | -0- | 124,503.83 | 124,503.83 |
| Telephone | -0- | 56,707.85 | 56,707.85 |
| Water | -0- | 25,344.29 | 25,344.29 |
| Costs Recharged in total to Computing Center | -0- | 10,137.72 | 10,137.72 |
| | 67,016.62 | 316,170.04 | 383,186.66 |
| | $ 256,652.80 | $ 336,321.64 | $ 592,974.44 |

(2) PLEDGED INCOME:
The net revenues from the following auxiliary enterprises are pledged to the retirement of revenue bonds:

(i) All residence halls.
(ii) All married and faculty housing units.
(iii) Fieldhouse

The endowment income from the second Federal Land Grant is also pledged to the retirement of revenue bonds.

MONTANA STATE UNIVERSITY
NOTES TO CURRENT FUND FINANCIAL STATEMENTS - continued
YEAR ENDED JUNE 30, 1974

(3) BENEFITS:
Benefits are allocated to individual departments and programs on the basis of an overall percent of personal services, except for Film and TV, Child Development Center, Athletics, Closed Circuit TV, and Auxiliary Enterprises which are costed direct. Benefits on salaries recharged are allocated to the originating department.

EXHIBIT H

MONTANA STATE UNIVERSITY
BALANCE SHEET-LOAN FUNDS
JUNE 30, 1974

| | FEDERAL GOVERNMENT PARTICIPATION FUNDS | | |
|---|---|---|---|
| ASSETS | NATIONAL DIRECT | NURSING-CAPITAL LOAN | NURSING-CAPITAL CONTRIBUTION |
| Cash | $ 225,368.62 | $ 1,241.04 | $ 1,510.03 |
| Student Loans receivable (Note 2) | 3,176,631.75 | 45,366.26 | 515,638.64 |
| Capital receivable (overpaid from University | -0- | -0- | -0- |
| Unallocated collections (Note 1) | (1,349.30) | (40.00) | (235.66) |
| | $ 3,400,651.07 | $ 46,567.30 | $ 516,913.01 |
| FUND BALANCES | | | |
| Federal capital contributions | $ 3,273,542.49 | $ 58,565.00 | $ 478,388.16 |
| University capital contributions | 367,772.37 | -0- | 53,328.01 |
| Private capital contributions | -0- | -0- | -0- |
| Capital repayments-fed. government | -0- | (10,776.91) | -0- |
| Loan principal & interest cancelled | (317,839.80) | ( 3,481.93) | (31,394.66) |
| Accumulated income | 178,839.97 | 2,261.14 | 16,591.50 |
| Accumulated expenditures | (101,663.96) | -0- | -0- |
| Bad debt write-offs | -0- | -0- | -0- |
| (Exhibit G) | $ 3,400,651.07 | $ 46,567.30 | $ 516,913.01 |

(See accompanying notes)

| LAW ENFORCEMENT (Note 3) | GRADUATE NURSING | TOTALS | INSTITUTIONAL FUNDS | TOTALS |
|---|---|---|---|---|
| $ 19,921.75 | $ 4,062.00 | $ 252,103.44 | $ 106,003.56 | $ 358,107.00 |
| -0- | 3,284.00 | 3,740,920.65 | 93,185.02 | 3,834,105.67 |
| -0- | -0- | -0- | -0- | -0- |
| -0- | -0- | (1,624.96) | -0- | (1,624.96) |
| $ 19,921.75 | $ 7,346.00 | $ 3,991,399.13 | $ 199,188.58 | $ 4,190.587.71 |
| | | | | |
| $146,257.00 | $ 6,711.00 | $ 3,963,463.65 | $ -0- | $ 3,963,463.65 |
| -0- | 635.00 | 421,735.38 | -0- | 421,735.38 |
| -0- | -0- | -0- | 149,754.64 | 149,754.64 |
| (126,335.25) | -0- | (137,112.16) | -0- | (137,112.16) |
| -0- | -0- | (352,716.39) | -0- | (352,716.39) |
| -0- | -0- | 197,692.61 | 52,710.61 | 250,403.22 |
| -0- | -0- | (101,663.96) | -0- | (101,663.96) |
| -0- | -0- | -0- | (3,276.67) | (3,276.67) |
| $ 19,921.75 | $ 7,346.00 | $ 3,991,399.13 | $ 199,188.58 | $ 4,190,587.71 |

EXHIBIT I

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES-LOAN FUNDS
YEAR ENDED JUNE 30, 1974

| | FEDERAL GOVERNMENT PARTICIPATION FUNDS | | |
|---|---|---|---|
| | NATIONAL DIRECT | NURSING-CAPITAL LOAN | NURSING-CAPITAL CONTRIBUTION |
| BALANCES - JULY 1, 1973 | $ 2,986,408.77 | $ 50,374.20 | $ 428,457.42 |
| INCREASES: | | | |
| Capital contributions-Federal Government | 404,195,49 | -0- | 84,933.00 |
| Capital contributions-University | 49,016.81 | -0- | 9,436.00 |
| Capital Contributions-Private | -0- | -0- | -0- |
| Interest income | 31,643.76 | 1,330.69 | 5,355.80 |
| Other (Note 4) | -0- | -0- | -0- |
| | 484,856.06 | 1,330.69 | 99,724.80 |
| DECREASES: | | | |
| Loan principal and interest - cancelled | 51,132.16 | 1,490.90 | 11,269.21 |
| Capital repayments - Federal Government | -0- | 3,646.69 | -0- |
| Administrative expenditures | 19,481.60 | -0- | -0- |
| Other (Note 4) | -0- | -0- | -0- |
| | 70,613.76 | 5,137.59 | 11,269.21 |
| BALANCES - JUNE 30, 1974 | $ 3,400,651.07 | $ 46,567.30 | $ 516,913.01 |

(See accompanying notes)

| LAW ENFORCEMENT (Note 3) | GRADUATE NURSING | TOTALS | INSTITUTIONAL FUNDS | TOTALS |
|---|---|---|---|---|
| $ 309.75 | $ 6,346.00 | $ 3,471,896.14 | $ 133,889.63 | $ 3,605,785.77 |
| 23,125.00 | 1,000.00 | 513,253.49 | -0- | 513,253.49 |
| -0- | -0- | 58,452.81 | -0- | 58,452.81 |
| -0- | -0- | -0- | 53,906.92 | 53,906.92 |
| -0- | -0- | 38,330.25 | 11,150.72 | 49,480.97 |
| -0- | -0- | -0- | 10,413.29 | 10,413.29 |
| 23,125.00 | 1,000.00 | 610,036.55 | 75,470.93 | 685,507.48 |
| 3,513.00 | -0- | 67,405.27 | -0- | 67,405.27 |
| -0- | -0- | 3,646.69 | -0- | 3,646.69 |
| -0- | -0- | 19,481.60 | -0- | 19,481.60 |
| -0- | -0- | -0- | 10,171.98 | 10,171.98 |
| 3,513.00 | -0- | 90,533.56 | 10,171.98 | 100,705.54 |
| $ 19,921.75 | $ 7,346.00 | $ 3,991,399.13 | $ 199,188.58 | $ 4,190,587.71 |

EXHIBIT I-1

MONTANA STATE UNIVERSITY
NOTES TO LOAN FUNDS FINANCIAL STATEMENTS
JUNE 30, 1975

(1) UNALLOCATED COLLECTIONS:
All detailed accounts receivable record keeping, including billing and collection, for National Direct and Nursing Student Loans were handled by the American National Educational Corporation until June 30, 1974. Effective July 1, 1974 these same functions are to be performed by the Labor Finance Industrial Bank, Denver, Colorado. As of June 30, 1974, amounts shown as unallocated collections represented amounts collected and not credited to detail accounts or amounts credited to detail accounts but not deposited to the University's account in the United California Bank by American National Educational Corporation.

(2) LOANS RECEIVABLE AND BAD DEBTS:
Under the National Direct and Nursing Student Loan Funds, federal regulations provide only for writing off loans in the event of death or bankruptcy. As of June 30, 1974, 40 National Direct loans totaling $17,505,00 in delinquent payments had been placed with a collection agency. These loans are still reflected in the University's records with other current outstanding loans.

(3) LAW ENFORCEMENT EDUCATIONAL PROGRAM:
Under the provisions of this federally sponsored program the University makes the loans to students but the responsibility for collection reverts to the federal government which also retains the repayments. Accordingly, the University does not carry the amounts advanced under this program as loans outstanding but shows all loans advanced during the year as a repayment of capital to the federal government.

(4) OTHER ADDITIONS AND DEDUCTIONS:
Other additions to fund balances consisted of the following:

| | |
|---|---|
| Previously written off loans collected during the year | $ 413.29 |
| Transfer from Alumni Fund to Oswald Fund | 10,000.00 |
| | $10,413.29 |

Other deductions to fund balances consisted of the following:

| | |
|---|---|
| Write-off of uncollectible loan | $ 163.28 |
| Write-off of uncollectible loan | 8.70 |
| Transfer from Alumni Fund to Oswald Fund | 10,000.00 |
| | $10,171.98 |

EXHIBIT J

MONTANA STATE UNIVERSITY
BALANCE SHEET - ENDOWMENT FUNDS (Notes 1 & 2)
JUNE 30, 1974

| | FIRST GRANT | SECOND GRANT | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Investments and cash | $ 1,490,746.62 | $ 721,299.86 | $ 2,212,046.48 |
| Land sale contracts receivable | 5,816.53 | 35,401.24 | 41,217.77 |
| Land | 629,773.10 | 324,083.10 | 953,856.20 |
| | $ 2,126,336.25 | $ 1,080,784.20 | $ 3,207,120.45 |
| **EQUITIES** | | | |
| Fund balances (Exhibit I) | $ 2,126,336.25 | $ 1,080,784.20 | $ 3,207,120.45 |

(See accompanying notes)

EXHIBIT K

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES - ENDOWMENT FUNDS (Notes 1 & 2)
YEAR ENDED JUNE 30, 1974

| | FIRST GRANT | SECOND GRANT | TOTALS |
|---|---|---|---|
| BALANCES - July 1, 1973 | $ 2,126,080.81 | $ 1,079,345.06 | $ 3,205,425.87 |
| ADDITIONS: | | | |
| Revenue from Sale of Assets | 255.44 | 1,439.14 | 1,694.58 |
| BALANCES - JUNE 30, 1974 | $ 2,126,336.25 | $ 1,080,784.20 | $ 3,207,120.45 |

(See accompanying notes)

EXHIBIT K-1

MONTANA STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENDITURES - ENDOWMENT FUNDS (Notes 1 & 2)
YEAR ENDED JUNE 30, 1974

| | FIRST GRANT | SECOND GRANT | TOTALS |
|---|---|---|---|
| INVESTMENT REVENUES: | | | |
| Grazing lease rentals | $ 33,452.23 | $ 13,035.52 | $ 46,487.75 |
| Agricultural lease rentals | 13,993.99 | 268.45 | 14,262.44 |
| Uranium lease rentals | 4,602.77 | 340.00 | 4,942.77 |
| Oil and gas lease rentals | 15,078.74 | -0- | 15,078.74 |
| Metalliferous lease rentals | -0- | 80.00 | 80.00 |
| Interest on land sale contracts | 317.63 | 2,501.86 | 2,819.49 |
| Interest on investments | 52,570.01 | 25,010.11 | 77,580.12 |
| | 120,015.37 | 41,235.94 | 161,251.31 |
| ADJUSTMENTS: | | | |
| Retained by State Land Board for State Resource Development | (1,646.20) | (343.75) | (1,989.95) |
| NET INVESTMENT REVENUES - CURRENT UNRESTRICTED FUNDS REVENUE | $ 118,369.17 | $ 40,892.19 | $ 159,261.36 |
| REVENUES FROM SALE OF ASSETS: | | | |
| Timber sales | $ 134.23 | $ 1,439.14 | $ 1,573.37 |
| Right of way sales | -0- | -0- | -0- |
| Oil and gas royalties | 121.21 | -0- | 121.21 |
| Coal, sand and gravel royalties | -0- | -0- | -0- |
| TOTAL ADDITION TO ENDOWMENT FUNDS | $ 255.44 | $ 1,439.14 | $ 1,694.58 |

(See accompanying notes)

MONTANA STATE UNIVERSITY
NOTES TO ENDOWMENT FUNDS FINANCIAL STATEMENTS
JUNE 30, 1974

(1) LAND GRANTS:
Montana State University benefits from two separate land grants. The Enabling Act of 1889 provided for the organization of the State of Montana and its admission to the Union and confirmed an earlier Act of Congress dedicating 72 sections of the public domain for purposes of higher education in Montana. The Enabling Act of 1889 also granted 50,000 acres (Second Grant) for an agricultural college. An additional 90,000 acres (First Grant) was granted under provisions of the Morrill Act of 1862.

Under provisions of both grants income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual fund. The investment income from the perpetual funds may then be used for current operations of the University, therefore, these revenues are delineated by source in Endowment Funds but reported as Current Unrestricted Funds Revenue. Investment income from the Second Grant is currently pledged to the retirement of revenue bonds under the July 1, 1954 Indenture.

As of June 30, 1974, 62,977.31 acres remained unsold from the First Grant and 32,408.31 acres from the Second Grant. This land is valued at $10.00 per acre for accounting purposes by the State Land Board which administers both grants and holds all assets.

(2) OTHER ENDOWMENTS:
The Univeristy benefits from various privately funded endowments, all of which are administered by the Endowment and Research Foundation at Montana State University.

EXHIBIT L

# MONTANA STATE UNIVERSITY
## BALANCE SHEET - UNEXPENDED PLANT FUNDS
## JUNE 30, 1974

| | MAJOR NEW CONSTRUCTION | REMODELING, IMPROVEMENTS AND ADDITIONS | TOTALS |
|---|---|---|---|
| **ASSETS** | | | |
| Cash - | | | |
| Held by University | $ 296,545.61 | $ 49,337.88 | $ 345,883.49 |
| Held by State Treasurer | 174,057.80 | -0- | 174,057.80 |
| | 470,603.41 | 49,337.88 | 519,941.29 |
| Advances and unexpended appropriations held by State Treasurer | 1,101,576.94 | 125,727.02 | 1,227,303.96 |
| Receivables - | | | |
| Land sale contracts receivable | -0- | 16,793.20 | 16,793.20 |
| Receivable from Federal Gov. | 78,208.39 | -0- | 78,208.39 |
| Receivable from Retirement of Indebtedness Funds | -0- | -0- | -0- |
| | 78,208.39 | 16,793.20 | 95,001.59 |
| Investments - | | | |
| Held by State Treasurer | 1,077,958.83 | -0- | 1,077,958.83 |
| | $ 2,728,347.57 | $ 191,858.10 | $ 2,920,205.67 |
| **EQUITIES** | | | |
| Revenue bonds payable (Note 1) | | | |
| Married Stu. Housing III | $ 778,023.77 | $ -0- | $ 778,023.77 |
| Fine Arts facility | -0- | -0- | -0- |
| Football Stadium and Physical Educ. Center | -0- | -0- | -0- |
| | 778,023.77 | -0- | 778,023.77 |
| Special Improvement District Payable | -0- | 2,829.91 | 2,829.91 |
| Fund balances (Exhibit K) | 1,715,227.08 | 424,124.91 | 2,139,351.99 |
| | $ 2,493,250.85 | $ 426,954.82 | $ 2,920,205.67 |

(See accompanying notes)

EXHIBIT M

# MONTANA STATE UNIVERSITY
## STATEMENT OF CHANGES IN FUND BALANCES - UNEXPENDED PLANT FUNDS
## YEAR ENDED JUNE 30, 1974

| | MAJOR NEW CONSTRUCTION | REMODELING, IMPROVEMENTS AND ADDITIONS | TOTALS |
|---|---|---|---|
| BALANCES - JULY 1, 1973 | $ 5,017,324.63 | $ 257,103.32 | $ 5,274,427.95 |
| ADDITIONS - | | | |
| Alumni Contributions | -0- | -0- | -0- |
| Transfers from current funds - education and general | -0- | 41,000.00 | 41,000.00 |
| Transfers from current funds - auxiliary enterprises | 45,104.00 | 2,135.18 | 47,239.18 |
| Transfers from retirement of indebtedness funds | -0- | -0- | -0- |
| Transfers from agency funds | -0- | -0- | -0- |
| Transfers from Endowment Research Foundation | -0- | -0- | -0- |
| Transfer of revenue bonds to investment in plant for completed construction | 1,216,983.32 | -0- | 1,216,983.32 |
| State appropriations | -0- | 224,000.00 | 224,000.00 |
| Miscellaneous income (Note 2) | 99,194.94 | 1,371.80 | 100,566.74 |
| | 1,361,282.26 | 268,506.98 | 1,629,789.24 |
| DEDUCTIONS - | | | |
| Capital expenditures | 4,370,856.40 | 40,656.15 | 4,411,512.55 |
| Transfers to retirement of indebtedness funds | 25,000.00 | 9,764.46 | 34,764.46 |
| Other (Note 3) | 267,523.41 | 51,064.78 | 318,588.19 |
| | 4,663,379.81 | 101,485.39 | 4,764,865.20 |
| BALANCES - JUNE 30, 1974 (Schedule 8) | $ 1,715,227.08 | $ 424,124.91 | $ 2,139,351.99 |

(See accompanying notes)

MONTANA STATE UNIVERSITY
NOTES TO UNEXPENDED PLANT FUNDS FINANCIAL STATEMENTS
JUNE 30, 1974

(1) REVENUE BONDS PAYABLE:
The balance of revenue bonds outstanding of $778,023.77 represents the unexpended balance of total proceeds from the sale of revenue bonds of $6,575,000.00. The remaining balance of $5,796,976.23 represents construction in progress and is reflected in investment in plant.

(2) MISCELLANEOUS INCOME:
Miscellaneous income consists of the following:

| | |
|---|---|
| Investment Income | $ 99,194.94 |
| Private Contributions | 340.00 |
| Interest Income - land sale contracts | 1,031.80 |
| | $ 100,566.74 |

(3) OTHER DEDUCTIONS:
Other deductions consist of the following:

| | |
|---|---|
| Adjustment to prior year transfers | $ 266,309.12 |
| Reversion of unexpended appropriations | 1,214.29 |
| Transfers to current unrestricted education and general funds | 41,508.21 |
| Adjustments to prior years income | 2,613.31 |
| Repurchase of Greekway Lot | 6,943.26 |
| | $ 318,588.19 |

(4) LAND SALE CONTRACTS RECEIVABLE:
The University has set aside land for sale to fraternities and sororities as building sites. The proceeds from the land sales are being used by the University to retire debts incurred (City of Bozeman Special Improvement Districts) in improving land sites. Contracts receivable at June 30, 1974 were as follows:

| DATE OF SALE | TERM | ANNUAL PAYMENT | INTEREST RATE | ORIGINAL BALANCE | BALANCE JUNE 30, 1974 |
|---|---|---|---|---|---|
| December 15, 1965 | 20 years | $ 615.86 | 4 % | $ 8,543.25 | $ -0- |
| December 15, 1965 | 20 years | 485.46 | 4 % | 6,736.65 | 4,302.87 |
| May 2, 1966 | 20 years | 489.47 | 4 % | 6,786.15 | 4,845.23 |
| June 10, 1968 | 20 years | 772.33 | 4 % | 10,699.50 | 7,645.10 |
| June 10, 1968 | 20 years | 615.86 | 4 % | 8,546.85 | -0- |
| | | | | $ 41,312.40 | $ 16,793.20 |

MONTANA STATE UNIVERSITY
NOTES TO UNEXPENDED PLANT FUNDS FINANCIAL STATEMENTS - continued
JUNE 30, 1974

(5) CAPITAL EXPENDITURES FOR FISCAL YEAR 1974 ARE SHOWN NET ON THE FOLLOWING PROJECTS:

| | |
|---|---|
| Classroom Office Building - | |
| Capital expenditures for year ended June 30, 1974 | $ 1,911,176.93 |
| Adjustment to prior year's expenditures | (25,000.00) |
| Capital expenditures as reported | $ 1,886,176.93 |
| Creative Arts Complex - | |
| Capital construction expenditures | $ 638,328.30 |
| Capital equipment expenditures | 29,295.88 |
| Capital expenditures as reported | $ 667,624.18 |

EXHIBIT N

MONTANA STATE UNIVERSITY
BALANCE SHEET - RETIREMENT OF INDEBTEDNESS FUNDS (Note 1)
JUNE 30, 1974

## ASSETS

| | | |
|---|---|---|
| Cash - | | |
| Held by University | $ 559,206.16 | |
| Held by State Treasurer | 708,474.55 | |
| Held by Trustee | 75,521.35 | $ 1,343,202.06 |
| Investments - | | |
| Held by University | -0- | |
| Held by Trustee | 2,938,927.37 | 2,938,927.37 |
| Receivables - | | |
| Due from unexpended plant funds | | -0- |
| | | $ 4,282,129.43 |

## EQUITIES

| | |
|---|---|
| Payable to unexpended plant funds | -0- |
| Fund Balances (Exhibit M) | 4,282,129.43 |
| | $ 4,282,129.43 |

(See accompanying notes)

EXHIBIT O

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES - RETIREMENT OF INDEBTEDNESS FUNDS (Note 1)
YEAR ENDED JUNE 30, 1974

| | UNIVERSITY BALANCES | STATE TREASURER BALANCES |
|---|---|---|
| BALANCES - JULY 1, 1973 | $ 244,194.78 | $ 780,002.39 |
| ADDITIONS: | | |
| Student fees | 1,101,641.71 | -0- |
| Investment income | 2,220.74 | -0- |
| Transfers from current unrestricted funda - Agricultural Experiment Station | 8,517.25 | -0- |
| Transfers from current unrestricted funds - Auxililary Enterprises | 6,370.41 | -0- |
| Transfers from current unrestricted funds - Education and General | 5,907.40 | -0- |
| Discount on bonds purchased | -0- | -0- |
| Transfers from unexpended plant funda | 34,764.46 | -0- |
| Inter-fund transfers | -0- | 1,713,528.13 |
| Adjustments to prior year | 265,601.12 | -0- |
| | 1,425,023.09 | 1,713,528.13 |
| DEDUCTIONS: | | |
| Other debt retired | 14,157.11 | -0- |
| Bonds redeemed | -0- | 595,000.00 |
| Interest paid | -0- | 1,190,055.97 |
| Transfers to unexpended plant funds | -0- | -0- |
| Transfers to current unrestricted funds | 2,800.00 | -0- |
| Other expenditures | 13,211.61 | -0- |
| Inter-fund transfers | 1,079,698.46 | -0- |
| Adjustments to prior year | 144.53 | -0- |
| | 1,110,011.71 | 1,785,055.97 |
| BALANCES - JUNE 30, 1974 (Schedule 10) | $ 559,206.16 | $ 708,474.55 |

(See accompanying notes)

| TRUSTEE BALANCES | TOTALS |
|---|---|
| $ 2,509,074.74 | $ 3,533,271.91 |
| -0- | 1,101,641.71 |
| 258,682.60 | 260,903.34 |
| -0- | 8,517.25 |
| 833,521.05 | 839,891.46 |
| 47,000.00 | 52,907.40 |
| -0- | -0- |
| -0- | 34,764.46 |
| 1,079,698.46 | 2,793,226.59 |
| -0- | 265,601.12 |
| 2,218,902.11 | 5,357,453.33 |
| -0- | 14,157.11 |
| -0- | 595,000.00 |
| -0- | 1,190,055.97 |
| -0- | -0- |
| -0- | 2,800.00 |
| -0- | 13,211.61 |
| 1,713,528.13 | 2,793,226.59 |
| -0- | 144.53 |
| 1,713,528.13 | 4,608,595.81 |
| $ 3,014,448.72 | $ 4,282,129.43 |

MONTANA STATE UNIVERSITY
NOTES TO RETIREMENT OF INDEBTEDNESS FUNDS FINANCIAL STATEMENTS
JUNE 30, 1974

(1) AUDIT OF REVENUE BOND ACCOUNTS:

The records and accounts of the University's revenue bonds are subject to an annual audit by a certified public accounting firm. The audit report for the year ended June 30, 1974, reported that the University was complying with the provisions of the Indentures and Resolutions authorizing the bonds and that all earnings and account balances were met. Copies of the report are available to bond holders and interested investors upon request.

EXHIBIT P

MONTANA STATE UNIVERSITY
BALANCE SHEET - INVESTMENT IN PLANT
JUNE 30, 1974

ASSETS (Note 2)

| | | | |
|---|---|---|---|
| Investment in Plant: (Exhibit O) | | | |
| Land and land improvements | | $ 1,440,698.25 | |
| Buildings | | 42,106,942.79 | |
| Construction in progress | | 13,747,511.11 | |
| Capitalized lease re-purchase (Note 1) | | 36,649.26 | |
| Equipment | | 11,923,897.76 | |
| Livestock | | 7,800.00 | |
| | | | $ 69,263,499.17 |

EQUITIES

| | | | |
|---|---|---|---|
| Liabilities: | | | |
| Revenue bonds payable (Note 3) | | | |
| Indenture July 1, 1954 | $ 16,485,976.23 | | |
| Indenture January 1, 1956 | 703,000.00 | | |
| Resolution October 14, 1963 | 5,043,000.00 | | |
| Resolution April 12, 1971 | 1,850,000.00 | | |
| | | 24,081,976.23 | |
| Other: | | | |
| Payable to City of Bozeman, SID's | 45,655.89 | | |
| Lease re-purchases payable (Note 1) | 36,649.26 | | |
| | | 82,305.15 | |
| Fund Balance | | 45,099,217.79 | |
| | | | $ 69,263,499.17 |

(See accompanying notes)

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN INVESTMENT IN PLANT
YEAR ENDED JUNE 30, 1974

EXHIBIT Q

| | LAND AND LAND IMPROVEMENTS | BUILDINGS | CONSTRUCTION IN PROGRESS (Schedule 12) |
|---|---|---|---|
| BALANCES - JULY 1, 1973 | $ 1,388,535.94 | $ 42,022,975.52 | $ 9,429,736.30 |
| ADDITIONS: | | | |
| Current unrestricted funds (Schedule 13) | 38,048.10 | 26,335.59 | -0- |
| Current restricted funds (Schedule 14) | -0- | -0- | -0- |
| Unexpended plant funds | 6,810.18 | 33,845.97 | 4,341,560.52 |
| Livestock inventory adjustment to fair market value (Note 2) | -0- | -0- | -0- |
| Completed construction | -0- | 23,785.71 | -0- |
| Special improvement districts | 7,304.03 | -0- | -0- |
| | 52,162.31 | 83,967.27 | 4,341,560.52 |
| DEDUCTIONS: | | | |
| Completed construction | -0- | -0- | 23,785.71 |
| Amortization of lease re-purchases | -0- | -0- | -0- |
| | -0- | -0- | 23,785.71 |
| BALANCES - JUNE 30, 1974 (Note 2) | $ 1,440,698.25 | $ 42,106,942.79 | $ 13,747,511.11 |

(See accompanying notes)

| CAPITALIZED LEASE RE-PURCHASES (Note 1) | EQUIPMENT | LIVESTOCK | TOTALS |
|---|---|---|---|
| $ 42,996.60 | $ 11,204,929.71 | $ 6,300.00 | $ 64,095,474.07 |
| -0- | 688,892.91 | 1,357.42 | 754,634.02 |
| -0- | 779.26 | -0- | 779.26 |
| -0- | 29,295.88 | -0- | 4,411,512.55 |
| -0- | -0- | 142.58 | 142.58 |
| -0- | -0- | -0- | 23,785.71 |
| -0- | -0- | -0- | 7,304.03 |
| -0- | 718,968.05 | 1,500.00 | 5,198,158.15 |
| -0- | -0- | -0- | 23,785.71 |
| 6,347.34 | -0- | -0- | 6,347.34 |
| 6,347.34 | -0- | -0- | 30,133.05 |
| $ 36,649.26 | $ 11,923,897.76 | $ 7,800.00 | $ 69,263,499.17 |

MONTANA STATE UNIVERSITY
NOTES TO INVESTMENT IN PLANT FINANCIAL STATEMENTS
JUNE 30, 1974

(1) CAPITALIZED LEASE PURCHASES:
When the Quadrangle residence halls were completed in 1935 they were leased for a period of 60 years to three sororities. In 1964 and 1965 these sororities sold back to the University all of their rights, titles, and interests in these lease agreements for a total of $73,961.43. Each re-purchase agreement of $24,653.81 is being amortized over 16 years at 4% interest. The cost of these lease re-purchases is being charged to current operatings as the equal tri-annual payments are made over the 16 year period of the re-purchase agreement.

(2) ASSET VALUATION:
Construction in progress reflects current projects properly stated at cost and livestock reflects actual inventory at fair market value. All other asset totals represent total costs unadjusted for items which have been sold, traded or junked.

(3) REVENUE BONDS PAYABLE:
Total revenue bonds payable at June 30, 1973, were $25,455,000.00. The balance of the total liability of $1,995,007.09 is reflected in unexpended plant funds.

(4) CONSTRUCTION EXPENDITURES:
Additions to construction in progress are exclusive of capital equipment expenditures which have been added to equipment balances.

MONTANA STATE UNIVERSITY
BALANCE SHEET - AGENCY FUNDS
JUNE 30, 1974

EXHIBIT R

| | STUDENT DEPOSITS | REGISTRATION DEPOSITS | STUDENT ORGANIZATIONS (Note 1) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 177,186.72 | $ (42,985.63) | $ 71.138.26 |
| Accounts receivable | -0- | 85,714.78 | -0- |
| Investments | -0- | -0- | 206,269.44 |
| | $ 177,186.72 | $ 42,729.15 | $ 277,407.70 |
| **EQUITIES** | | | |
| Accrued expenditures | $ -0- | $ -0- | $ -0- |
| Fund balances (Exhibit Q) | 177,186.72 | 42,729.15 | 277,407.70 |
| | $ 177,186.72 | $ 42,729.15 | $ 277,407.70 |

(See accompanying notes)

| TRUST FUNDS | ENDOWMENT AND RESEARCH FOUNDATION (Note 3) | TOTALS |
|---|---|---|
| $ 217,602.94 | $ 183,605.38 | $ 606,547.67 |
| 51,764.85 | -0- | 137,479.63 |
| 127,207.48 | 440,678.28 | 774,155.20 |
| 396,575.27 | 624,283.66 | $ 1,518,182.50 |
| | | |
| $ 29,325.80 | $ 53,842.37 | $ 83,168.17 |
| 367,249.47 | 570,441.29 | 1,435,014.33 |
| $ 396,575.27 | $ 624,283.66 | $ 1,518,182.50 |

EXHIBIT S

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES - AGENCY FUNDS
YEAR ENDED JUNE 30, 1974

| | STUDENT DEPOSITS | REGISTRATION DEPOSITS | STUDENT ORGANIZATIONS (Note 1) |
|---|---|---|---|
| BALANCES - JULY 1, 1973 | $ 254,789.01 | $ -0- | $ 211,703.02 |
| ADDITIONS: | | | |
| Income | -0- | -0- | 1,768,434.58 |
| Transfers in | -0- | -0- | -0- |
| Net Increase in deposits | -0- | 42,729.15 | -0- |
| | -0- | 42,729.15 | 1,768,434.58 |
| DEDUCTIONS: | | | |
| Expenditures | -0- | -0- | 1,702,721.90 |
| Net decrease in deposits | 77,602.29 | -0- | -0- |
| Adjustments to prior year | -0- | -0- | 8.00 |
| | 77,602.29 | -0- | 1,702,729.90 |
| BALANCES - JUNE 30, 1974 (Schedule 16) | $ 177,186.72 | $ 42,729.15 | $ 277,407.70 |

(See accompanying notes)

| TRUST FUNDS (Note 2) | ENDOWMENT AND RESEARCH FOUNDATION (Note 3) | TOTALS |
|---|---|---|
| $ 251,150.96 | $ 366,863.04 | $ 1,084,506.03 |
| | | |
| 4,496,928.83 | 5,498,080.14 | 11,763,443.55 |
| 165,782.06 | 1,579.98 | 167,362.04 |
| -0- | -0- | 42,729.15 |
| 4,662,710.89 | 5,499,660.12 | 11,973,534.74 |
| | | |
| 4 545,456.29 | 5,295,675.99 | 11,543,854.18 |
| -0- | -0- | 77,602.29 |
| 1.156.09 | 405.88 | 1.569.97 |
| 4,546,612.38 | 5,296,081.87 | 11,623,026.44 |
| | | |
| $ 367,249.47 | $ 570,441.29 | $ 1,435,014.33 |

MONTANA STATE UNIVERSITY
NOTES TO AGENCY FUNDS FINANCIAL STATEMENTS
JUNE 30, 1974

(1) STUDENT ORGANIZATIONS:
The University accounts for the funds of student organizations in total through the Student Business Office. This office has direct responsibility over the receipts and disbursements of the various organizations, approximately 170 on June 30, 1974 and maintains the detailed accounting records.

(2) TRUST FUNDS:
Local trust funds expenditures includes $1,800.00 transferred to Current Restricted Funds; also $500.00 omitted on the Balance Sheet as of 6/30/73, Trust Funds, is reported as transferred to Current Unrestricted Funds Auxiliaries, i.e., Traffic and Security Change Fund.

(3) ENDOWMENT AND RESEARCH FOUNDATION:
The Endowment and Research Foundation, a non-profit corporation incorporated January 9, 1947, was formed to "promote educational objectives by encouraging, fostering and conducting investigations and research, and by acquiring and disseminating knowledge in relation thereto and to receive, or acquire, by gifts, devise, bequest or otherwise any money or property, either absolute or in trust to be used, either the principal or income therefrom as may be directed, for the furtherance of any of the purposes which may be within its corporate powers...." Information regarding the Endowment and Research Foundation, which prepares a separate annual financial report, may be acquired from Dr. Roy E. Huffman, Executive Director.

Included in reported Expenditures for Fiscal Year Ending June 30, 1974 is $5,000.00 transferred to Current Unrestricted Funds.

Exhibit AA

MONTANA AGRICULTURAL EXPERIMENT STATION
COMPARATIVE BALANCE SHEET

| | JUNE 30, Unaudited 1974 | 1973 |
|---|---|---|
| **ASSETS** | | |
| CURRENT FUNDS: | | |
| UNRESTRICTED - | | |
| Education and General - | | |
| Unexpended State Appropriations | $ 5,813.83 | $ 30,403.72 |
| Cash - Held by State Treasurer | 42,717.82 | 147,118.19 |
| Cash - Held by Station | 2,158.73 | 62,871.72 |
| | 44,876.55 | 209,989.91 |
| Investments - Held by State Treasurer | 768,219.61 | 389,935.12 |
| Investments - Held by Station | -0- | 315,231.25 |
| | 768,219.61 | 705,166.37 |
| Total Unrestricted | 818,909.99 | 945,560.00 |
| RESTRICTED - | | |
| Education and General - | | |
| Cash - Held by State Treasurer | 24,387.12 | 25,605.22 |
| Investments - Held by Station | 558,158.74 | -0- |
| Total Restricted | 582,545.86 | 25,605.22 |
| TOTAL CURRENT FUNDS | $ 1,401,455.85 | $ 971,165.22 |
| PLANT FUNDS: | | |
| UNEXPENDED PLANT FUNDS - | | |
| Cash - Held by State Treasurer | $ 2,107.83 | $ 4,922.92 |
| Cash - Held by Station | 2,166.39 | 8,438.88 |
| | 4,274.22 | 13,361.80 |
| Advances and Unexpended Approp. | 146,161.85 | -0- |
| Investments - Held by University | 52,674.73 | 40,000.00 |
| Investments - Held by State Treasurer | 19,245.04 | 14,855.50 |
| | 71,919.77 | 54,855.50 |
| Total Unexpended Plant Funds | 222,355.84 | 68,217.30 |
| INVESTMENT IN PLANT: (Note 4) | | |
| Land and land improvements | 960,066.17 | 894,066.17 |
| Buildings | 1,461,210.89 | 1,430,930.22 |
| Equipment | 2,396,240.75 | 2,074,880.40 |
| Livestock (Note 4) | 1,507,841.38 | 1,503,669.60 |
| Total Investment in Plant | 6,325,359.19 | 5,903,546.39 |
| TOTAL PLANT FUNDS | $ 6,547,715.03 | $ 5,971,763.69 |

(See accompanying notes)

| | JUNE 30, 1974 | Unaudited 1973 |
|---|---|---|
| **EQUITIES** | | |
| CURRENT FUNDS: | | |
| UNRESTRICTED - | | |
| Education and General - | | |
| Accrued expenditures | $ 268,912.29 | $ 176,190.04 |
| Fund balance (Exhibit EE) | 549,997.70 | 769,369.96 |
| Total Unrestricted | 818,909.99 | 945,560.00 |
| RESTRICTED - | | |
| Education and General - | | |
| Accrued expenditures | 105,094.53 | 1,828.65 |
| Fund balance (Exhibit EE) | 477,451.33 | 23,776.57 |
| Total Restricted | 582,545.86 | 25,605.22 |
| TOTAL CURRENT FUNDS | $ 1,401,455.85 | $ 971,165.22 |
| PLANT FUNDS: | | |
| UNEXPENDED PLANT FUNDS - | | |
| Fund balances (Exhibit FF) | 222,355.84 | 68,217.30 |
| Total Unexpended Plant Funds | 222,355.84 | 68,217.30 |
| INVESTMENT IN PLANT - | | |
| Notes payable (Note 2) | 42,200.00 | 54,000.00 |
| Fund balances | 6,283,159.19 | 5,849,546.39 |
| Total Investment in plant | 6,325,359.19 | 5,903,546.39 |
| TOTAL PLANT FUNDS | $ 6,547,715.03 | $ 5,971,763.69 |

Exhibit BB

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CURRENT FUNDS REVENUES
YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED | RESTRICTED | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| GOVERNMENTAL APPROPRIATIONS-FEDERAL | | | |
| Hatch | $ 557,277.00 | $ -0- | $ 557,277.00 |
| Regional Research II | 271,723.00 | -0- | 271,723.00 |
| | 829,000.00 | -0- | 829,000.00 |
| GOVERNMENTAL APPROPRIATIONS-STATE | | | |
| General Fund | 2,160,872.00 | -0- | 2,160,872.00 |
| Fertilizer | -0- | 48,524.40 | 48,524.40 |
| | 2,160,872.00 | 48,524.40 | 2,209,396.40 |
| SALES AND SERVICES OF EDUCATIONAL ACTIVITIES | | | |
| Director's Office | 6,564.57 | -0- | 6,564.57 |
| Animal Science | 296,195.31 | -0- | 296,195.31 |
| Chemical Analysis Laboratory | 12,367.50 | -0- | 12,367.50 |
| Plant and Soil Science | 25,388.09 | -0- | 25,388.09 |
| Veterinary Research Laboratory | 5,401.98 | -0- | 5,401.98 |
| Central Branch Station | 18,529.19 | -0- | 18,529.19 |
| Eastern Branch Station | 46,821.19 | -0- | 46,821.19 |
| Grain Laboratory | 6,597.94 | -0- | 6,597.94 |
| Western Branch Station | 3,492.38 | -0- | 3,492.38 |
| Northern Branch Station | 277,044.32 | -0- | 277,044.32 |
| Northwestern Branch Station | 28,104.57 | -0- | 28,104.57 |
| Wool Laboratory | 550.38 | -0- | 550.38 |
| Huntley Branch Station | 57,298.00 | -0- | 57,298.00 |
| U.S. Range Livestock Exp. Station | -0- | 693,941.60 | 693,941.60 |
| | 784,355.42 | 693,941.60 | 1,478,297.02 |
| OTHER SOURCES | | | |
| Interest income on temporay investments | 67,997.17 | -0- | 67,997.17 |
| | $ 3,842,224.59 | $ 742,466.00 | $ 4,584,690.59 |

(See accompanying notes)

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CURRENT FUNDS EXPENDITURES
YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED (Schedule 101) | RESTRICTED (Schedule 102) | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| RESEARCH: | | | |
| Institutes and Research Centers | $ 1,071,566.74 | $ 633,907.32 | $ 1,705,474.06 |
| Individual or Project Research | 2,057,367.08 | 29,862.75 | 2,087,229.83 |
| | 3,128,933.82 | 663,770.07 | 3,792,703.89 |
| ACADEMIC SUPPORT: | | | |
| Libraries | 8,940.00 | -0- | 8,940.00 |
| INSTITUTIONAL SUPPORT: | | | |
| Executive Management | 219,357.34 | -0- | 219,357.34 |
| Fiscal Operations | 27,890.01 | -0- | 27,890.01 |
| General Administrative Services | 7,256.79 | -0- | 7,256.79 |
| Logistical Services | 10,094.20 | -0- | 10,094.20 |
| Community Relations | 65,159.16 | -0- | 65,159.16 |
| | 329,757.50 | -0- | 329,757.50 |
| OPERATION AND MAINTENANCE OF PHYSICAL PLANT: | 86,026.00 | -0- | 86,026.00 |
| TOTAL EXPENDITURES | $ 3,553,657.32 | $ 663,770.07 | $ 4,217,427.39 |

(See accompanying notes)

| PERSONAL SERVICES | OPERATIONS | BENEFITS (Note 1) | CAPITAL | TOTAL |
|---|---|---|---|---|
| $ 905,841.13 | $ 400,923.40 | $ 106,690.68 | $ 292,018.85 | $ 1,705,474.06 |
| 1,371,474.12 | 469,834.16 | 148,470.76 | 97,450.79 | 2,087,229.83 |
| 2,277,315.25 | 870,757.56 | 255,161.44 | 389,469.64 | 3,792,703.89 |
| 8,940.00 | -0- | -0- | -0- | 8,940.00 |
| 105,805.14 | 96,275.70 | 10,690.35 | 6,586.15 | 219,357.34 |
| 24,433.83 | 3,456.18 | -0- | -0- | 27,890.01 |
| 7,028.91 | 227.88 | -0- | -0- | 7,256.79 |
| 9,455.26 | 638.94 | -0- | -0- | 10,094.20 |
| 33,865.64 | 25,409.85 | 2,624.56 | 3,259.11 | 65,159.16 |
| 180,588.78 | 126,008.55 | 13,314.91 | 9,845.26 | 329,757.50 |
| 31,842.00 | 54,184.00 | -0- | -0- | 86,026.00 |
| $ 2,498,686.03 | $ 1,050,950.11 | $ 268,476.35 | $ 399,314.90 | $ 4,217,427.39 |

# MONTANA AGRICULTURAL EXPERIMENT STATION
## STATEMENTS OF CHANGES IN FUND BALANCES - CURRENT FUNDS
## YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED EDUCATION AND GENERAL | RESTRICTED EDUCATION AND GENERAL |
|---|---|---|
| BALANCES - JULY 1, 1973 | 769,369.96 | 23,776.57 |
| ADDITIONS: | | |
| Revenues | 3,842,224.59 | 742,466.00 |
| Transfer from Agricultural Experiment Station Unrestricted Funds | -0- | 375,027.62 |
| Adjustments to prior years income and expenditures | 3,993.04 | -0- |
| | 3,846,217.63 | 1,117,493.62 |
| DEDUCTIONS: | | |
| Expenditures | 3,553,657.32 | 663,770.07 |
| Transfers to University - Education and General | 4,030.13 | -0- |
| Transfers to Retirement of Indebtedness Funds (Note 2) | 20,317.25 | -0- |
| Transfer to Unexpended Plant Funds | 112,557.57 | -0- |
| Transfer to Agricultural Experiment Station Current Restricted Funds | 375,027.62 | -0- |
| Adjustments to prior year income and expenditures | -0- | 48.79 |
| | 4,065,589.89 | 663,818.86 |
| BALANCES - JUNE 30, 1974 | $ 549,997.70 | $ 477,451.33 |

(See accompanying notes)

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CHANGES IN FUND BALANCES - UNEXPENDED PLANT FUNDS
YEAR ENDED JUNE 30, 1974

| | BALANCES JUNE 30, 1973 | INCOME (Note 3) | APPROPRIATIONS |
|---|---|---|---|
| MAJOR NEW CONSTRUCTION AND ACQUISITIONS: | | | |
| Fort Ellis | $ 41,072.50 | $ 3,167.37 | $ -0- |
| Hartman Ranch | 7,366.38 | 4,899.67 | -0- |
| Feed Mixing Plant | -0- | -0- | 111,835.00 |
| Irrigation Dam | -0- | -0- | -0- |
| | 48,438.88 | 8,067.04 | 111,835.00 |
| REMODELING, IMPROVEMENTS AND ADDITIONS: | | | |
| Northern Branch Station Trust | 19,778.42 | 6,574.45 | -0- |
| Headhouse Addition | -0- | -0- | -0- |
| Environmental Chambers | -0- | -0- | -0- |
| | 19,778.42 | 6,574.45 | -0- |
| | $ 68,217.30 | $ 14,641.49 | $ 111,835.00 |

(See accompanying notes)

| TRANSFERS TO (FROM) | CAPITAL EXPENDITURES (Exhibit GG) | OTHER EXPENDITURES (Note 6) | BALANCES JUNE 30, 1974 |
|---|---|---|---|
| $ -0- | $ -0- | $ 280.33 | $ 43,959.54 |
| -0- | -0- | 1,384.47 | 10,881.58 |
| -0- | -0- | -0- | 111,835.00 |
| 66,000.00 | 66,000.00 | -0- | -0- |
| 66,000.00 | 66,000.00 | 1,664.80 | 166,676.12 |
| | | | |
| -0- | 5,000.00 | -0- | 21,352.87 |
| 36,748.60 | 2,421.75 | -0- | 34,326.85 |
| 9,808.97 | 9,808.97 | -0- | -0- |
| 46,557.57 | 17,230.72 | -0- | 55,679.72 |
| $ 112,557.57 | $ 83,230.72 | $ 1,664.80 | $ 222,355.84 |

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CHANGES IN INVESTMENT IN PLANT
YEAR ENDED JUNE 30, 1974

| | LAND AND LAND IMPROVEMENTS | BUILDINGS |
|---|---|---|
| BALANCES - JULY 1, 1973 | $ 894,066.17 | $ 1,430,930.22 |
| ADDITIONS: | | |
| Current Unrestricted Funds (Schedule 103) | -0- | 9,799.95 |
| Current Restricted Funds (Schedule 103) | -0- | 8,250.00 |
| Unexpended Plant Funds | 66,000.00 | 12,230.72 |
| Livestock inventory adjustments to fair market value (Note 4) | -0- | -0- |
| | 66,000.00 | 30,280.67 |
| BALANCES - JUNE 30, 1974 (Note 4) | $ 960,066.17 | $ 1,461,210.89 |

(See accompanying notes)

| EQUIPMENT | LIVESTOCK | TOTAL |
|---|---|---|
| $ 2,074,880.40 | $ 1,503,669.60 | $ 5,903,546.39 |
| 184,797.46 | 49,394.00 | 243,991.41 |
| 131,562.89 | 15,510.60 | 155,323.49 |
| 5,000.00 | -0- | 83,230.72 |
| -0- | (60,732.82) | (60,732.82) |
| 321,360.35 | 4,171.78 | 421,812.80 |
| $ 2,396,240.75 | $ 1,507,841.38 | $ 6,325,359.19 |

# MONTANA AGRICULTURAL EXPERIMENT STATION
## NOTES TO FINANCIAL STATEMENTS
## JUNE 30, 1974

(1) BENEFITS;
Benefits are allocated to individual departments and programs on the basis of an overall percent of personal services. Benefits on salaries recharged are allocated to the originating department.

(2) NOTES PAYABLE:
Notes payable on land purchases outstanding on June 30, 1974 were as follows:

| PAYEE | TERMS | ORIGINAL BALANCE | INTEREST RATE | OUTSTANDING JUNE 30, 1974 |
|---|---|---|---|---|
| Milo C. Roberts | $6,800.00 plus interest due annually on July 1. | $ 68,000.00 | 7 % | $ 27,200.00 |
| E. F. Boldt | $5,000.00 plus interest due annually on Jan. 1. | 100,000.00 | 5 % | 15,000.00 |
| | | | | $ 42,200.00 |

(3) UNEXPENDED PLANT FUNDS INCOME:
Unexpended plant funds income was as follows:

| | |
|---|---|
| Interest income | $ 8,141.49 |
| Lease income | 4,000.00 |
| Gravel sales | 2,500.00 |
| | $ 14,641.49 |

(4) INVESTMENT IN PLANT VALUATION:
Except for livestock, which is stated at fair market value, all asset totals represent total costs unadjusted for items which have been sold, traded or junked.

(5) RECHARGES:
Some of the costs of certain University departments are recharged to the Agricultural Experiment Station on a predetermined budgeted basis. The accompanying financial statement includes the following recharges in expenditures for the year ended June 30, 1974.

| | PERSONAL SERVICES | OPERATIONS | CAPITAL | TOTAL |
|---|---|---|---|---|
| ACADEMIC SUPPORT- | | | | |
| Libraries | $ 8,940.00 | $ -0- | $ -0- | $ 8,940.00 |
| INSTITUTIONAL SUPPORT - | | | | |
| President's Office | 6,600.00 | -0- | -0- | 6,600.00 |
| Advisory Council | -0- | 350.00 | -0- | 350.00 |
| Business Office | 24,433.83 | 3,456.18 | -0- | 27,890.01 |
| Personnel Services | 7,028.91 | 227.88 | -0- | 7,256.79 |
| Purchasing | 2,008.26 | 113.94 | -0- | 2,122.20 |
| Office of Information | 9,510.00 | -0- | -0- | 9,510.00 |
| Central Mail Service | 2,494.00 | 95.00 | -0- | 2,589.00 |
| Traffic and Security | 4,953.00 | 430.00 | -0- | 5,383.00 |
| | 57,028.00 | 4,673.00 | -0- | 61,701.00 |

MONTANA AGRICULTURAL EXPERIMENT STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1974

(5) RECHARGES: (continued)

| | PERSONAL SERVICES | OPERATIONS | CAPITAL | TOTAL |
|---|---|---|---|---|
| OPERATION AND MAINTENANCE OF PHYSICAL PLANT- | | | | |
| Building | $ 23,342.00 | $ 6,563.00 | $ -0- | $ 29,905.00 |
| Grounds | 205.00 | -0- | -0- | 205.00 |
| Heating System | 8,295.00 | 16,140.00 | -0- | 24,435.00 |
| Lights and Power | -0- | 18,350.00 | -0- | 18,350.00 |
| Telephone | -0- | 13,131.00 | -0- | 13,131.00 |
| | 31,842.00 | 54,184.00 | -0- | 86,026.00 |
| | $ 97,810.00 | $ 58,857.00 | $ -0- | $ 156,667.00 |

(6) REPORTING NON-CAPITAL EXPENDITURE WITHIN UNEXPENDED PLANT FUNDS:
Reporting non-capital expenditure within unexpended plant funds is a departure from recommended practice, however, due to their immaterial amount a separate Plant Funds Section, i.e., Renewals and Replacements, has not been established.

(7) RESTATEMENT OF PRIOR YEAR:
See University "Notes to Comparative Financial Statements" for a general explanation, specifics are as follows:

A. Revenues -

(1) The number of defined revenue catagories increased thereby requiring internal realignment.

(2) U.S. Range Livestock Experiment Station revenue reported as Unrestricted Current has been revised as Restricted Current-$534,627.63.

B. Expenditures -

(1) The JAG functional expenditure classification required extensive internal organizational revision.

(2) U.S. Range Livestock Experiment Station previously reported as Unrestricted Current has been revised as Restricted Current-$408,241.25.

# MONTANA COOPERATIVE EXTENSION SERVICE
## COMPARATIVE BALANCE SHEET

| | JUNE 30, Unaudited 1974 | 1973 |
|---|---|---|
| **ASSETS** | | |
| CURRENT FUNDS: | | |
| UNRESTRICTED - | | |
| Education and General - | | |
| Unexpended State Appropriations | $ 13,089.60 | $ 9,399.23 |
| Cash - | | |
| Held by State Treasurer | 5.61 | 10.44 |
| Held by Extension Service | 5,176.11 | (307.41) |
| | 5,181.72 | (296.97) |
| Accounts Receivable | 756.50 | 856.50 |
| Total Unrestricted | 19,027.82 | 9,958.76 |
| RESTRICTED - | | |
| Education and General - | | |
| Cash - | | |
| Held by State Treasurer | 11,638.21 | 9,901.45 |
| Held by Extension Service | 58,737.40 | 77,147.05 |
| | 70,375.61 | 87,048.50 |
| Total Current Funds | $ 89,403.43 | $ 97,007.26 |
| PLANT FUNDS: | | |
| INVESTMENT IN PLANT - (Exhibit FFF) | | |
| Buildings | $ 27,133.83 | $ 27,133.83 |
| Equipment | 381,551.74 | 373,052.60 |
| | $ 408,685.57 | $ 400,186.43 |

(See accompanying notes)

| | JUNE 30, Unaudited 1974 | 1973 |
|---|---|---|
| **EQUITIES** | | |
| CURRENT FUNDS: | | |
| UNRESTRICTED - | | |
| Education and General - | | |
| Accrued expenditures | $ 15,400.45 | $ 9,859.09 |
| Fund balances (Exhibit EEE) | 3,627.37 | 99.67 |
| Total Unrestricted | 19,027.82 | 9,958.76 |
| RESTRICTED - | | |
| Education and General - | | |
| Accrued expenditures | 7,769.65 | 6,429.96 |
| Fund balances (Exhibit EEE) | 62,605.96 | 80,618.54 |
| | 70,375.61 | 87,048.50 |
| Total Current Funds | $ 89,403.43 | $ 97,007.26 |
| PLANT FUNDS: | | |
| INVESTMENT IN PLANT | | |
| Fund balances (Exhibit FFF) | 408,685.67 | 400,186.43 |
| | $ 408,685.67 | $ 400,186.43 |

MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CURRENT FUNDS REVENUE
YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED | RESTRICTED | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| GOVERNMENTAL APPROPRIATION - FEDERAL | | | |
| Environmental Education | $ 889,605.00 | $ -0- | $ 889,605.00 |
| Expanded Nutrition Program | -0- | 236,720.00 | 236,720.00 |
| 4-H Development | -0- | 80,590.00 | 80,590.00 |
| | 889,605.00 | 317,310.00 | 1,206,915.00 |
| GOVERNMENTAL APPROPRIATIONS - STATE | | | |
| General Fund | 708,401.00 | -0- | 708,401.00 |
| Extension Fertilizer | -0- | 41,385.41 | 41,385.41 |
| | 708,401.00 | 41,385.41 | 749,786.41 |
| GOVERNMENTAL GRANTS AND CONTRACTS- FEDERAL | | | |
| Agriculture Marketing | 6,629.60 | -0- | 6,629.60 |
| Indian Affairs | 153,275.95 | -0- | 153,275.95 |
| Civil Defense Adult Education | -0- | 25,912.82 | 25,912.82 |
| Bitterroot Research Conservation and Development | -0- | 11,681.00 | 11,681.00 |
| Environmental Education | -0- | 20,195.78 | 20,195.78 |
| Indian 4-H | -0- | 17,250.00 | 17,250.00 |
| Other Federal | -0- | 12,625.00 | 12,625.00 |
| | 159,905.55 | 87,664.60 | 247,570.15 |
| GOVERNMENTAL GRANTS AND CONTRACTS - STATE | | | |
| Wildlife | -0- | 19,500.00 | 19,500.00 |
| GOVERNMENTAL GRANTS AND CONTRACTS - LOCAL | | | |
| Rosebud County Community Development | -0- | 4,800.00 | 4,800.00 |
| PRIVATE GIFTS, GRANTS AND CONTRACTS - | | | |
| Kellogg Extension Educ. Program | -0- | 166,330.00 | 166,330.00 |
| Seed Growers | -0- | 3,768.00 | 3,768.00 |
| Other | -0- | 2,901.60 | 2,901.60 |
| | -0- | 172,999.60 | 172,999.60 |
| SALES AND SERVICES OF EDUCATIONAL ACTIVITIES - | | | |
| Extension Revolving-Multigraph | 50,356.23 | -0- | 50,356.23 |
| | $ 1,808,267.78 | $ 643,659.61 | $ 2,451,927.39 |

Exhibit CCC

# COOPERATIVE EXTENSION SERVICE
## STATEMENT OF CURRENT FUNDS EXPENDITURES
## YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED (Schedule 201) | RESTRICTED (Schedule 202) | TOTAL |
|---|---|---|---|
| EDUCATION AND GENERAL: | | | |
| PUBLIC SERVICE - | | | |
| Cooperative Extension Service | $ 1,446,613.92 | $ 668,529.09 | $ 2,115,143.01 |
| INSTITUTIONAL SUPPORT - | | | |
| Executive Management | 100,532.15 | 544.20 | 101,076.35 |
| Fiscal Operations | 15,180.65 | -0- | 15,180.65 |
| General Administrative Services | 4,185.03 | -0- | 4,185.03 |
| Logistical Services | 122,164.27 | 34.53 | 122,198.80 |
| Community Relations | 95,188.61 | -0- | 95,188.61 |
| | 337,250.71 | 578.73 | 337,829.44 |
| Operation and Maintenance of Physical Plant | 26,120.00 | -0- | 26,120.00 |
| TOTAL EDUCATION AND GENERAL | $ 1,809,984.63 | $ 669,107.82 | $ 2,479,092.45 |

(See accompanying notes)

| PERSONAL SERVICES | OPERATIONS | BENEFITS (Note 1) | CAPITAL | TOTAL |
|---|---|---|---|---|
| $ 1,634,630.71 | $ 375,174.29 | $ 99,976.96 | $ 5,361.05 | $ 2,115,143.01 |
| 82,069.82 | 13,299.49 | 4,096.58 | 1,610.46 | 101,076.35 |
| 14,359.83 | 820.82 | -0- | -0- | 15,180.65 |
| 4,130.91 | 54.12 | -0- | -0- | 4,185.03 |
| 64,124.97 | 54,561.33 | 3,102.64 | 409.86 | 122,198.80 |
| 42,292.49 | 49,752.67 | 2,025.68 | 1,117.77 | 95,188.61 |
| 206,978.02 | 118,488.43 | 9,224.90 | 3,138.09 | 337,829.44 |
| 10,140.00 | 15,980.00 | -0- | -0- | 26,120.00 |
| $ 1,851,748.73 | $ 509,642.72 | $ 109,201.86 | $ 8,499.14 | $ 2,479,092.45 |

# MONTANA COOPERATIVE EXTENSION SERVICE
## STATEMENT OF CHANGES IN FUND BALANCES - CURRENT FUNDS
### YEAR ENDED JUNE 30, 1974

| | UNRESTRICTED EDUCATION AND GENERAL | RESTRICTED EDUCATION AND GENERAL |
|---|---|---|
| BALANCES - JULY 1, 1973 | $ 99.67 | $ 80,618.54 |
| ADDITIONS: | | |
| Adjustment to prior periods | 5,744.55 | 7,435.63 |
| DEDUCTIONS: | | |
| Excess of expenditures and transfers over revenues | 2,216.85 | 25,448.21 |
| BALANCES - JUNE 30, 1974 | $ 3,627.37 | $ 62,605.96 |

(See accompanying notes)

Exhibit EEE

# MONTANA COOPERATIVE EXTENSION SERVICE
## STATEMENT OF CHANGES IN INVESTMENT IN PLANT
## YEAR ENDED JUNE 30, 1974

| | BUILDINGS | EQUIPMENT | TOTAL |
|---|---|---|---|
| BALANCES - JULY L, 1973 | $ 27,133.83 | $ 373,052.60 | $ 400,186.43 |
| ADDITIONS: | | | |
| Current unrestricted funds | -0- | 5,114.45 | 5,114.45 |
| Current restricted funds | -0- | 3,384.69 | 3,384.69 |
| | -0- | 8,499.14 | 8,499.14 |
| BALANCES - JUNE 30, 1974 | $ 27,133.83 | $ 381,551.74 | $ 408,685.57 |

(See accompanying notes)

MONTANA COOPERATIVE EXTENSION SERVICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1974

(1) BENEFITS:
Benefits are allocated to individual departments and programs on the basis of an overall percent of personal service. Benefits on salaries recharged are allocated to the originating department.

(2) RECHARGES:
Some of the costs of certain University departments are recharged to the Cooperative Extension Service on a predetermined budgeted basis. The accompanying financial statements include the following recharges included in expenditures for the year ended June 30, 1974:

| | PERSONAL SERVICES | OPERATIONS | CAPITAL | TOTAL |
|---|---|---|---|---|
| INSTITUTION SUPPORT: | | | | |
| President's Office | $ 1,196.00 | $ -0- | $ -0- | $ 1,196.00 |
| Advisory Council | -0- | 300.00 | -0- | 300.00 |
| Business Office | 14,359.83 | 820.82 | -0- | 15,180.65 |
| Office of Information | 2,302.00 | -0- | -0- | 2,302.00 |
| Purchasing | 1,180.26 | 27.06 | -0- | 1,207.32 |
| Personnel Services | 4,130.91 | 54.12 | -0- | 4,185.03 |
| Central Mail | 584.00 | 95.00 | -0- | 679.00 |
| Traffic and Security | 1,109.00 | 105.00 | -0- | 1,214.00 |
| | 24,862.00 | 1,402.00 | -0- | 26,264.00 |
| OPERATION AND MAINTENANCE OF PHYSICAL PLANT: | | | | |
| Buildings | 6,447.00 | 600.00 | -0- | 7,047.00 |
| Heat System | 2,639.00 | 2,040.00 | -0- | 4,679.00 |
| Lights and Power | -0- | 530.00 | -0- | 530.00 |
| Telephone | 1,054.00 | 7,070.00 | -0- | 8,124.00 |
| | 10,140.00 | 10,240.00 | -0- | 20,380.00 |
| | $ 35,002.00 | $ 11,642.00 | $ -0- | $ 46,644.00 |

(3) RESTATEMENT OF PRIOR YEAR;
See University "Notes to Comparative Financial Statements" for a general explanation, specifics are as follows:

A. Revenues -

(1) The number of defined revenue catagories increased thereby requiring internal realignment.

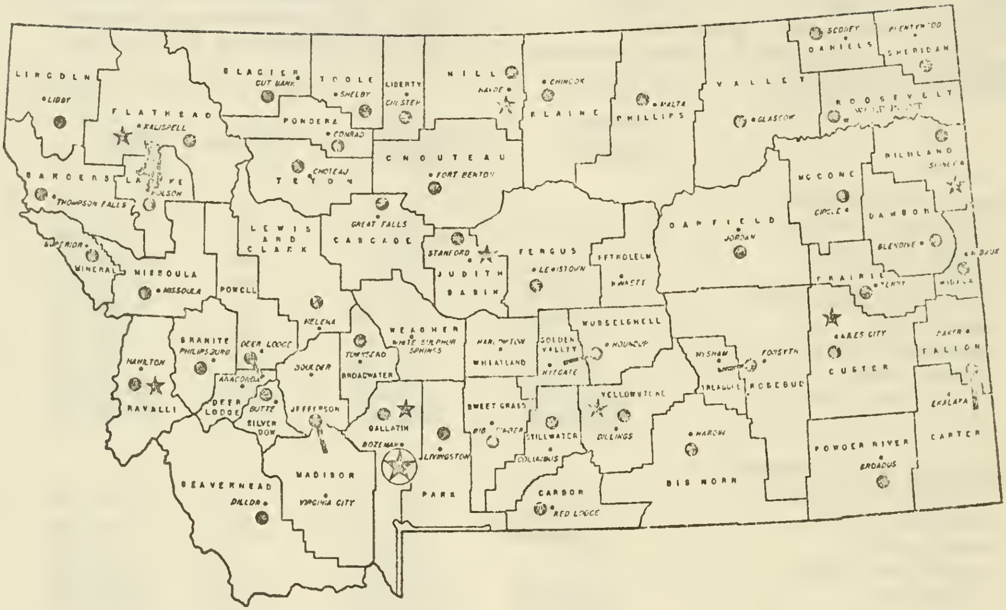
B. Expenditures -

(1) The JAG functional expenditure classification required extensive internal organizational revision.

# MONTANA STATE UNIVERSITY

in the

# STATE OF MONTANA




**Legend:**

Montana State University - Campus at Bozeman

Montana Agricultural Experiment Station - Branch Stations

Montana Cooperative Extension Service - County Agent

Montana Cooperative Extension Service - Dual County Agent

THE MONTANA UNIVERSITY SYSTEM
TWELVE THIRTY-ONE ELEVENTH AVE.
HELENA, MONTANA
59601

COMMISSIONER OF HIGHER EDUCATION

RECEIVED
JAN 30 1976
MONTANA LEGISLATIVE AUDITOR

January 29, 1976

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Re: Montana State University Contingent Liabilities

Dear Mr. Brusett:

This is in response to your inquiry of January 16, 1976, regarding the maximum anticipated exposure of MSU in the pending cases Mecklenburg v. MSU, and Croteau v. MSU.

With respect to the Mecklenburg case, Plaintiffs attempted to show in their proof at trial that the liability of the institution in academic year 1974-75 was $222,776. Title VII of the Civil Rights Act of 1964 provides that back pay may be recovered for a discrimination claim under that statute for each of the three years preceding the filing of the claim (42 U.S.C. 200-e(5)). Therefore, while Plaintiff's proof with regard to damages went only to the first year, the potential exists for recovery in each of four separate years. The amount of any back pay in the three preceding years is necessarily indeterminate, but presumably could meet the $222,776 claimed in the most recent academic year.

With respect to Croteau V. MSU, I can only say that a statute in effect at the time the action was brought, Section 83-701, R.C.M. 1947, purported to limit recovery to the policy coverage limits - here $300,000. This statute and its legal effect is under challenge by Plaintiff in this action, and the issue is pending before Judge Lessley on a Motion to Dismiss and a Motion to Strike. I would presume that $300,000 would be the maximum exposure, but pending the outcome of Judge Lessley's ruling, and possibly a subsequent ruling by the Montana Supreme Court, I cannot say that the $300,000 is the maximum contingent liability in this lawsuit. (Parenthetically, you should be aware that the State of Montana is also a defendant in this lawsuit and could possibly be held responsible for any judgment exceeding the $300,000 policy limits of MSU's liability insurance coverage.)

Please contact me if you require additional information.

Sincerely,

Barry L. Hjort

Barry L. Hjort
Assistant Commissioner for Labor
Relations and Legal Affairs

BLH:wm
cc: Lawrence K. Pettit; Dr. McIntosh

STATE OF MONTANA
# Department of Administration
INSURANCE AND LEGAL DIVISION
CAPITOL STATION, HELENA, MONTANA 59601

January 22, 1976

RECEIVED
JAN 23 1976
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State of Montana
Capitol Building
Helena, Montana 59601

Dear Mr. Brusett:

This is in response to your recent letter concerning the claims against Montana State University detailed in my letter of November 19, 1975. Specifically, you asked which claims would be paid by the insurance company vis-à-vis Montana State University, and the maximum exposure created by each claim.

(1) Gary Davis v. MSU - Insurance company liability; maximum exposure $60,000.00.

(2) The occurrences involving Ken Sinkler, David McIntyre, Pat Healow and Mrs. Henry Moore have not matured into claims to date. These incident reports are kept open in our files until the statute of limitations expires.

(3) Mountain Bell, Inc. - Insurance company liability; maximum exposure $186.92.

(4) Douglas Reeves v. MSU - Insurance company settled for $125,000.00; no liability accrued to MSU.

(5) Ferguson v. MSU - Jury verdict for MSU; no further liability exposure.

(6) Mayer v. MSU and Jane Doe, et al. v. MSU - No insurance coverage. These cases are currently being defended by Barry Hjort, Attorney for the Commissioner of Higher Education, and I suggest that requests for estimates of maximum liability exposure be directed to his office.

In addition to the above, the following breach of contract actions have been filed against the State of Montana arising out of the construction of Married Student Housing - Phase III, Montana State University:

| | | | | |
|---|---|---|---|---|
| (1) | C. W. Schmid, Inc. v. State | - | Approximately | \$200,000 |
| (2) | Leigland Company v. State | - | Approximately | 325,000 |
| (3) | Ray Plum, Jr. v. State & MSU | - | Approximately | 9,000 |
| | Maximum Liability | | | \$534,000 |

None of these cases involve the insurance carriers and all of them have been assigned to my office for defense by the Attorney General.

I hope this information is of assistance to you.

Sincerely,

J. Michael Young

J. MICHAEL YOUNG
Administrator

JMY:lc

AGENCY REPLIES

THE MONTANA UNIVERSITY SYSTEM
TWELVE THIRTY-ONE ELEVENTH AVE.
HELENA, MONTANA
59601

COMMISSIONER OF HIGHER EDUCATION

February 2, 1976

FEB 5 19

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

I have reviewed your audit report for Montana State University, the Agricultural Experiment Station, and the Cooperative Extension Service.

I concur with your recommendation that the Board of Regents establish a conflict of interest policy which corresponds with state law. I have directed my legal staff to draft such a policy.

I also concur with your audit recommendation pertaining to annual leave for non-academic employees. My legal staff has already drawn up a Regent policy to correct this deficiency. The policy was presented to the Regents at their January meeting and referred to the policy committee of the Board. The vacation policy item is on the February agenda for final Regent action and this matter should be resolved prior to the Legislative Audit Committee meeting on February 9, 1976.

I appreciate your reference in the audit report to the progress and efforts the University units are making in improving the accounting and financial reporting system. This effort is one of the highest priority items of the Board of Regents and my office.

As you are aware, the problems associated with a complete overhaul of the financial accounting system, including the endowment foundations, are complex and the undertaking is no small task.

I feel we have had excellent cooperation from your staff and the staff of the Department of Administration to date. I hope our cooperative efforts result in a system that provides financial reporting accountability and fulfills our management reporting needs in a manner that can be termed efficient and economical.

Sincerely,

Lawrence K. Pettit

Lawrence K. Pettit
Commissioner of Higher Education

LKP:wm

msu

OFFICE OF THE PRESIDENT

MONTANA STATE UNIVERSITY, BOZEMAN 59715

February 5, 1976

Mr. Morris L. Brusett
Legislative Auditor
Room 135 - State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

This is in reply to your letter of January 29th and transmits my written reply to the audit in the published report which was enclosed with your letter. As you know, I have conferred with my associates at Montana State University and acknowledge their assistance in the preparation of this response.

The reply addresses the recommendations indicating our position and the action contemplated. I shall anticipate hearing from you concerning the approximate time our report will be scheduled for discussion on February 23, 1976 with the Legislative Audit Committee.

Best wishes.

Sincerely,

Carl W. McIntosh
President

CWM:mk

TELEPHONE (406) 994 2341

MONTANA STATE UNIVERSITY

Response to the Legislative Auditor's

Report on Examination of

Financial Statements for the

Fiscal Year Ended June 30, 1974

# PREFACE

This response is submitted as a partial discussion of the contents of the Report on Examination of Financial Statements for the Fiscal Year Ended June 30, 1974, prepared by the Legislative Auditor.

# COMMENTS

## General

The personnel from the Office of the Legislative Auditor who spent several months at Montana State University were very considerate of the obligation of the University to conduct an ongoing operation with a minimum of interruption or interference. We wish to express our appreciation for the manner in which the audit was conducted. We can think of no instance in which an avoidable interruption occurred or an unnecessary problem had to be solved. We appreciate also the recommendations which can lead to improved management practices in the conduct of the University's various programs.

A careful reading of this audit report will make it apparent that Montana State University has been amazingly dependent upon the integrity and loyalty of its staff. Time and again, this audit report points out that but for this quality of integrity and loyalty the University could have suffered theft, fraud or embezzlement. It is to the credit of those who are a part of the University family that in <u>no</u> case was there any evidence that this had occurred.

We have no quarrel with the recommendation contained in this report which will build in safeguards designed to lessen our dependence on these characteristics, even though this will mean requesting additional staff in some instances and incurring additional costs.

In passing, however, we hope that there will be some expression of appreciation, from some source, to those who, during a period of fiscal austerity, risked apparently successfully some of the desirable and recommended supervision and control in order not to divert funds from the ongoing instruction, research and public service programs of the University.

Some comments contained in the report refer to the Montana State University Endowment and Research Foundation. The following observations may clarify or augment such observations:

Prior to July 1, 1975 all contracts and grants outside of the appropriated state funds of the University and certain broad Federal programs that were awarded to the institution, were accepted by the Vice President for Research and were administered by a separate incorporated entity entitled the Endowment and Research Foundation.

Such an arrangement is normal in many larger universities and it provides a means of efficiently handling contracts and grants. The reasons for such an evolvement are many, but the important ones were that better accounting could be given to the principal investigator and the auditors through such a mechanism and ease, somewhat, the administrative burden on the investigators.

Generally, the research activity administered by the Foundation occurs within a department of the University, but it should be made clear that this activity in no way offsets the normal instructional purpose or funding of that department. Grants and contracts are made, for the most part, for a specific purpose to a specific investigator with a specific result expected.

The Foundation did not maintain its own bank account and utilized University personnel, computer, payment and receipting procedures for which it reimbursed the University. The Foundation also used indirect cost reimbursements to support the University, to directly support research projects, to support administration of the contracts and grants, to support certain research centers on the campus, and occasionally support research in full which could not be funded from other sources. Effective July 1, 1975, many changes were made. Endowment accounts (that is, gifts that were made to the Foundation) were removed from the local funds on campus and a separate bank account was opened. The Foundation discontinued use

of University facilities, developed its own ledger, obtained an employee, and will rent space from the University. All grants and contracts were changed in September from University local funds and were deposited with the State Treasurer. Procedures are now being implemented to integrate the reporting of grants and contracts entirely within the University financial statements. Prior to July 1, 1975, the report of research contracts and grants was not adequately presented in the University financial statement; however, the financial statement was footnoted (page 86) to that effect and a report of all activity was published and was regarded as public information (page 27 of the audit report excerpts the 1975 report verbatim).

A detailed annual report of grants and contracts has always been prepared by the Endowment and Research Foundation for the review of the Board of Directors of the Foundation or any others interested in receiving a copy. The letter of transmittal contained in the Montana State University Annual Financial Report, June 30, 1974, and the "Summary of Significant Accounting Policies" (Exhibits A and B) of the Legislative Auditor's Report disclose and discuss most of the matters relating to financial statement presentations that were found objectionable by the Auditor.

Specific Recommendations

Recommendation (Page 21): *We recommend that the University establish procedures to properly identify and record revenue.*

Response: The University concurs in this recommendation. On March 1, 1974, the Business Office published deposit instructions to all departments which included procedures directed at the identification of the source and nature of the funds deposited. These procedures will be reviewed and modified as necessary in order to comply with this recommendation.

- - - - -

Recommendation (Page 22): *We recommend that the university establish procedures to record revenue in the period earned.*

Response: As pointed out elsewhere in the report, the university system is presently engaged in a complete review of its accounting system. The University Accounting Study will consider the matter of full accrual vs. the modified accrual accounting basis. When this matter has been resolved, appropriate guidance will be included in year-end closing instructions to all departments.

- - - - -

Recommendation (Page 33): *We recommend that the university financial aid office correct the internal control weaknesses discussed above.*

Recommendation (Page 36): *We recommend that the university:*

1. *Establish reliable accounts receivable procedures for student loans.*
2. *Reconcile subsidiary accounts receivable records to the general ledger in a timely manner.*
3. *Review procedures to improve exit conference attendance and attempt to conduct exit interviews with all students with loans leaving the university.*

Recommendation (Page 38): *We recommend that the university:*

1. *Establish procedures to improve internal controls over the college work study program.*
2. *Maintain proper documentation for payments made under the Montana Compact.*

Recommendation (Page 40): *We recommend that the university establish an allowance for doubtful accounts.*

Recommendation (Page 41): *We recommend that the university discontinue the policy and practice of withholding transcripts of students who have unpaid college loans when the students have gone through bankruptcy.*

Recommendation (Page 43): *We recommend that accounting and financial responsibilities for financial aid activities be transferred to the university business office.*

Response: In general, the University concurs with the thrust of these recommendations. We agree that the maintenance of accounts receivable and collection procedures should be the responsibility of the University Business Office. We intend to review existing procedures and transfer the receivable and collection function to the University Business Office prior to next autumn quarter. Since the period covered by the audit, the University has entered into a modified agreement with the American National Education Corporation which has resulted in considerable improvement in the administration of this program. Reconciliation procedures have been improved since the period covered by the audit and should present no serious problems after the transfer of the receivable function to the Business Office as discussed above. The University will emphasize to borrowers the importance of exit interviews and their responsibilities to report to the Financial Aid Office for such an interview. The University will discontinue the policy of withholding transcripts of students who have completed bankruptcy proceedings.

- - - - -

Recommendation (Page 45): *We recommend that the university purchasing department solicit bids on behalf of all university departments for required goods and services and require written quotations on major purchases.*

Recommendation (Page 46): *We recommend that the university centralize in one department the purchasing functions of the university, the experiment station and the extension service.*

Recommendation (Page 49): *We recommend that the university expand the use of the stores facilities.*

Response: The University concurs with these recommendations. As noted in the audit report, new purchasing procedures are now available to the University and the implementation of the new purchasing procedures is anticipated prior to July 1, 1976. It is our intention to include the Agricultural Experiment Station

and the Cooperative Extension Service within the framework of the new procedures. In the past, the Montana State University Purchasing Department has functioned effectively and with the new procedure discussed above the efficiency of purchasing on the campus may be further enhanced. The expansion of the stores facilities on campus would certainly help improve the procurement function; however, this would require additional physical facilities and the probability of expanded personnel costs during the initial setup and operating phase. We will request the resources necessary to accomplish this recommendation.

\- - - - -

Recommendation (Page 52): *We recommend that the university process and issue payroll warrants based upon actual time and attendance information.*

Response: As explained in the audit report, salaried personnel are paid on the last working day of each month. This means that the payroll must be prepared four or five days prior to that date and the possibility exists that an individual might be compensated for several days he has not actually worked. Although this is possible, the probability is that the salaried individual would have accrued leave benefits which would more than offset the time in question. We know of no instance when the University actually lost any money due to this procedure. The University initiated the policy that accrued terminal leave and sick leave benefits will not be paid until the month following termination. This policy in effect assures the University of a readily available offset against possible overpayments. Although it appears that this recommendation would be easy to implement, actually it would require a major change in payroll procedures. We believe there would be increased administrative costs since "standardized" payment procedure could not be utilized if we were to base payments upon the availability of actual time and attendance reports. We believe this matter should be discussed with the Commissioner of Higher Education and a University system-wide policy be established.

\- - - - -

Recommendation (Page 53): *We recommend that the university:*

1. *Centralize time and attendance records in the personnel office.*
2. *Review time cards on a test basis for proper authorization and retain them for review.*

Response: We concur with the general concept of this recommendation, insofar as it relates to the centralizing of similar types of records. For example, the Personnel Office does maintain time and attendance records for classified personnel. The Vice President for Administration maintains these records for the Regents' contracted staff. Since different regulations are applicable to these groups, we see no advantage to the physical centralization of these records in one office. In addition, the Cooperative Extension Service regulations require separate maintenance of Cooperative Extension staff serving under the federal retirement systems. Since the period covered by the audit, the filing of time and attendance and payroll cards has been standardized. Hourly salary and wage payment cards are filed in social security number order and maintained by the Payroll Office. Reports of attendance and utilization of sick leave and annual leave are filed in the employee's personnel record file.

- - - - -

Recommendation (Page 55): *We recommend that the university combine salary and budget reports and distribute these reports to all department heads and deans.*

Response: We concur.

- - - - -

Recommendation (Page 55): *We recommend that the university personnel office staff meet with newly hired and terminating employees.*

Response: We concur that this recommendation if followed would establish a highly desirable practice. However, due to budget limitations, the personnel office employment function was terminated as of July 1, 1975. If sufficient resources are available to reconstitute the employment section of the Personnel Department,

that function could be expanded to discharge the function set forth in this recommendation.

- - - - -

Recommendation (Page 56): *We recommend that the university allow annual leave for non-academic professional employees only in the amount prescribed by law.*

Response: This matter will be referred to and/or is presently under discussion by the Board of Regents and will be resolved by university system-wide policies.

- - - - -

Recommendation (Page 57): *We recommend that the university develop and maintain accurate detail records of all land owned or controlled by the university.*

Recommendation (Page 58): *We recommend that the university establish building valuations and adjust the subsidiary and general ledgers to agree with established values.*

Recommendation (Page 59): *We recommend the university revise property control procedures to provide adequate accounting and physical control over equipment.*

Response: We concur with these recommendations and will implement them as staff time permits.

- - - - -

Recommendation (Page 61): *We recommend that the university:*

1. *Periodically review agency fund accounts to ensure proper classification.*
2. *Record refund expenditures in the year in which they are made.*

Response: We concur with this recommendation. These matters will be addressed in the Regents University Accounting Study.

- - - - -

Recommendation (Page 63): *We recommend that the university and the Board of Regents establish a conflict of interest policy which complies with state law.*

Response: The University's present statement concerning conflict of interest appears in the Faculty Handbook and as stated applies to all University employees. (See page 172.) We would concur in the recommendation that the Board of Regents give official approval to this statement.

- - - - -

Recommendation (Page 65): *We recommend that the university:*

1. *Analyze and document lease or purchase decisions and budget for long-term capital needs accordingly.*
2. *Secure written lease agreements for all long-term research projects.*

Response: We concur with these recommendations.

- - - - -

Recommendation (Page 67): *We recommend that the university:*

1. *Permanently identify dairy center cattle and record sale dates and receipt numbers in the perpetual inventory records.*
2. *Assign market values to livestock inventory in a uniform manner.*

Response: We concur.

- - - - -

Recommendation (Page 68): *We recommend that the university improve the physical and accounting controls at the dairy center gas pump.*

Response: We concur.

- - - - -

Recommendation (Page 69): *We recommend that the university:*

1. *Sell beef for cash only.*
2. *Treat all personal services as compensation to employees and pay this compensation through normal payroll procedures.*

Recommendation (Page 70): *We recommend that the university institute procedures for measuring amounts of gravel removed and ensuring that proper payment is received.*

Response: We concur.

- - - - -

Recommendation (Page 72): *We recommend that the university pay gross salaries to employees and charge rents based upon fair market value.*

Response: The policy related to all of the housing provided for employees of the Montana Agricultural Experiment Station will be reviewed and the policies and procedures relative to perquisites will be reevaluated.

- - - - -

Recommendation (Page 74): *We recommend that the university:*

1. *Establish a multilith service center independent of the Cooperative Extension Service.*
2. *Correct the internal control problems discussed in this section.*

Response: We concur.

- - - - -

Recommendation (Page 79): *We recommend that the university develop procedures to properly differentiate between encumbrances and accounts payable in the financial statements.*

Response: We concur. This matter should be resolved with the completion of the university-wide accounting study.

- - - - -

Recommendation (Page 81): *We recommend that the university:*

1. *Correct internal control weakness in accounts receivable.*
2. *Consolidate the Cooperative Extension Service and the Agricultural Experiment Station under the university's automatic accounts receivable process.*

Response: 1. We concur.

2. Montana State University, the Agricultural Experiment Station, and the Cooperative Extension Service are all multi-funded agencies. In each of these agencies the fund control is maintained in a central office. In the University, this funding control is exercised through the Business Office, while in the

Agricultural Experiment Station and the Cooperative Extension Service the fund control is exercised in the Director's Office. Since the Business Office does not exercise fund control over the Agricultural Experiment Station and the Cooperative Extension Service, it is necessary that invoices flow through the appropriate Director's Office in order that the proper funds might be assigned. Because of this, the automatic billing process utilized by the university is not directly applicable to the Experiment Station and the Extension Service accounts. We will review our procedures with the Experiment Station and the Extension Service to determine if alternate methods might be employed in order to expedite payment of the accounts receivable.

\- - - - -

Recommendation (Page 81): *We recommend that the university use journal vouchers to account for intra-university transactions.*

Response: We concur that the journal voucher should be utilized as much as possible.

\- - - - -

Recommendation (Page 83): *We recommend that the university:*

1. *Improve its inventory costing procedures.*
2. *Require that a physical inventory be taken at least once each year.*
3. *Require approval by supervisory personnel for all inventory adjustments.*

Response: We concur.

\- - - - -

Recommendation (Page 84): *We recommend that the university establish sound criteria for recharges and periodically review the criteria.*

Response: We concur. This matter will be addressed in the university-wide accounting study.

\- - - - -

Recommendation (Page 86): *We recommend that the university deposit all nursing school money in the state treasury or seek authority for contingent revolving funds.*

Response: We concur.

\- - - - -

Recommendation (Page 86): *We recommend that the university chemistry store reconcile cash on hand to sales and deposit all receipts intact.*

Response: We concur.

\- - - - -

Recommendation (Page 88): *We recommend that the university correct the cash receipt and disbursement internal control weaknesses described above.*

Response: We concur. However, some of the recommendations relating to separation of duties are contingent upon the availability of additional staff.

## 608. Conflict of Interest

Montana State University Statement of Policy on Preventing Conflicts of Interest in Professional Activities:

1. Montana State University adopts the principles of the American Council on Education — American Association of University Professors statement on preventing conflicts of interest in government-sponsored research at universities. (See Section 609 for the text of this statement.) Where appropriate, this statement is considered as applying to research, consulting and professional practice involving nongovernment sponsors.

2. No employee of Montana State University may undertake consulting or professional practice assignments which would result in a conflict of interest with his assigned University duties.

3. Any person employed by Montana State University who contemplates accepting an outside research or consulting assignment which is not under the control of the University must make a statement to this effect and file it with his department head who will forward it to the appropriate academic dean. It shall be the responsibility of the academic dean to transmit a copy of the file to the Vice President for Research in order that University coordination is accomplished.

4. Any employee of Montana State University who recommends or approves a purchase, and who has any financial interest in the firm involved in the purchase, shall make this fact known at the time. Any employee of Montana State University who recommends or approves a personnel action, and who has any financial interest or business association with the person who is the object of the action, shall make this fact known at the time. This requirement does not include textbook adoptions where the faculty member is clearly identified as the author or editor of the book in question.

## 609. ACE-AAUP Statement on Preventing Conflicts of Interest in Government-Sponsored Research at Universities

The many complex problems that have developed in connection with the extensive sponsored research programs of the federal government have been of growing concern to the government, the academic community, and private indus-

try. Much of this concern has been based upon the interrelationship of the numerous individual commitments that develop in an annual program now well over a billion dollars and the many conflicts of interest possible as a result. Section 608, Conflict of Interest, is Montana State University's response to some of these problems.

An underlying premise of the following statement is that responsibility for determining standards affecting the academic community rests with that community, and that conflict of interest problems are best handled by administration and faculty in cooperative effort. In addition to providing guidelines, the statement seeks to identify and alert administration and faculty to the types of situations that have proved troublesome. Throughout, it seeks to protect the integrity of the objectives and needs of the cooperating institutions and their faculties, as well as of sponsoring agencies.

The increasingly necessary and complex relationships among universities, Government, and industry call for more intensive attention to standards of procedure and conduct in Government-sponsored research. The clarification and application of such standards must be designed to serve the purposes and needs of the projects and the public interest involved in them and to protect the integrity of the cooperating institutions as agencies of higher education.

The Government and institutions of higher education, as the contracting parties, have an obligation to see that adequate standards and procedures are developed and applied; to inform one another of their respective requirements; and to assure that all individuals participating in their respective behalfs are informed of and apply the standards and procedures that are so developed.

Consulting relationships between university staff members and industry serve the interests of research and education in the university. Likewise, the transfer of technical knowledge and skill from the university to industry contributes to technological advance. Such relationships are desirable, but certain potential hazards should be recognized.

## A. Conflict Situations

1. **Favoring of outside interests.** When a university staff member (administrator, faculty member, professional staff member, or employee) undertaking or engaging in Government-sponsored work has a significant financial interest in, or a consulting arrangement with, a private business concern, it is important to avoid actual or apparent conflicts of interest between his Government-sponsored university research obligations and his outside interests and other obligations. Situations in or from which conflicts of interest may arise are the:

   a. Undertaking or orientation of the staff member's university research to serve the research or other needs of the private firm without disclosure of such undertaking or orientation to the university and to the sponsoring agency;

   b. Purchase of major equipment, instruments, materials, or other items for university research from the private firm in which the staff member has the interest without disclosure of such interest;

   c. Transmission to the private firm or other use for personal gain of Government-sponsored work products, results, materials, records, or information that are not made generally available. (This would not necessarily preclude appropriate licensing arrangements for inventions, or consulting on the basis of Government-sponsored research results where there is significant additional work by the staff member independent of his Government-sponsored research);

   d. Use for personal gain or other unauthorized use of privileged information acquired in connection with the staff member's Government-sponsored activities. (The term "privileged information" includes, but is not limited to, medical, personnel, or security records of individuals; anticipated material requirements or price action; possible new sites for Government operations; and knowledge of forthcoming programs or of selection of contractors or subcontractors in advance of official announcements);

   e. Negotiation or influence upon the negotiation of contracts relating to the staff member's Government-sponsored research between the university and private organizations with which he has consulting or other significant relationships;

f. Acceptance of gratuities or special favors from private organizations with which the university does or may conduct business in connection with a Government-sponsored research project, or extension of gratuities or special favors to employees of the sponsoring Government agency, under circumstances which might reasonably be interpreted as an attempt to influence the recipients in the conduct of their duties.

2. **Distribution of effort.** There are competing demands on the energies of a faculty member (for example, research, teaching, committee work, outside consulting). The way in which he divides his effort among these various functions does not raise ethical questions unless the Government agency supporting his research is misled in its understanding of the amount of intellectual effort he is actually devoting to the research in question. A system of precise time accounting is incompatible with the inherent character of the work of a faculty member, since the various functions he performs are closely interrelated and do not conform to any meaningful division of a standard work week. On the other hand, if the research agreement contemplates that a staff member will devote a certain fraction of his effort to the Government-sponsored research, or he agrees to assume responsibility in relation to such research, a demonstrable relationship between the indicated effort or responsibility and the actual extent of his involvement is to be expected. Each university, therefore, should — through joint consultation of administration and faculty — develop procedures to assure that proposals are responsibly made and complied with.

3. **Consulting for Government agencies or their contractors.** When the staff member engaged in Government-sponsored research also serves as a consultant to a Federal agency, his conduct is subject to the provisions of the Conflict of Interest Statutes (18 U.S.C. 202-209 as amended) and the President's memorandum of May 2, 1963, **Preventing Conflicts of Interest on the Part of Special Government Employees.** When he consults for one or more Government contractors, or prospective contractors, in the same technical field as his research project, care must be taken to avoid giving advice that may be of questionable objectivity because of its possible bearing on his other interests. In undertaking and performing consulting services, he should make full disclosure of such interests to the university and to the contractor insofar as they may appear to relate to the work at the university or for the contractor. Conflict of interest problems could arise, for example, in the participation of a staff member of the university in an evaluation for the Government agency or its contractor of some technical aspect of the work of another organization with which he has a consulting or employment relationship or a significant financial interest, or in an evaluation of a competitor to such other organization.

## B. University Responsibility

Each university participating in Government-sponsored research should make known to the sponsoring Government agencies:

1. The steps it is taking to assure an understanding on the part of the university administration and staff members of the possible conflicts of interest or other problems that may develop in the foregoing types of situations, and:

2. The organizational and administrative actions it has taken or is taking to avoid such problems, including:
   a. Accounting procedures to be used to assure that Government funds are expended for the purposes for which they have been provided, and that all services which are required in return for these funds are supplied;
   b. Procedures that enable it to be aware of the outside professional work of staff members participating in Government-sponsored research, if such outside work relates in any way to the Government-sponsored research;
   c. The formulation of standards to guide the individual university staff members in governing their conduct in relation to outside interests that might raise questions of conflicts of interests;
   d. The provision within the university of an informed source of advice and guidance to its staff members for advance consultation on questions they wish to raise concerning the problems that may or do develop as a result of

their outside financial or consulting interests, as they relate to their participation in Government-sponsored university research. The university may wish to discuss such problems with the contracting officer or other appropriate Government official in those cases that appear to raise questions regarding conflicts of interest.

The above process of disclosure and consultation is the obligation assumed by the university when it accepts Government funds for research. The process must, of course, be carried out in a manner that does not infringe on the legitimate freedoms and flexibility of action of the university and its staff members that have traditionally characterized a university. It is dedesirable that standards and procedures of the kind discussed be formulated and administered by members of the university community themselves through their joint initiative and responsibility for it is they who are the best judges of the conditions which can most effectively stimulate the search for knowledge and preserve the requirements of academic freedom. Experience indicates that such standards and procedures should be developed and specified by joint administrative-faculty action.